

ADMINISTRATIVE RECORD

  
1189521 - R8 SDMS

Exhibit I through L  
Selected 104e Responses  
Railroad Bed Research in  
Support of Priority Soils  
Operable Unit RI/FS Planning  
Silver Bow/Butte  
Work Assignment No. 411

4010202  
100035

domestic subsidiary or at the time stock or indebtedness of a domestic subsidiary is acquired and any extension, renewal or replacement of any such mortgage.

The Co. will not, nor will it permit any restricted subsidiary to, create, assume, incur or suffer to exist any mortgage upon any principal property, whether owned or leased on the date of the indenture, or thereafter acquired, to secure any debt of the Co. or any other person, without in any such case making effective provision whereby all the outstanding debt securities shall be directly secured equally and ratably with such debt.

**INDENTURE MODIFICATION** — Indenture may be modified, except as provided, with consent of a majority in aggregate principal amount of notes outstg.

**RIGHTS ON DEFAULT** — Trustee, or 25% of notes outstg., may declare principal due and payable (30 day's grace for payment of interest).

**PURPOSE** — Proceeds will be used for general corporate purposes, including repayment of borrowings, working capital, capital expenditures, stock repurchase programs and acquisitions.

**OFFERED** — (\$200,000,000) at 100 plus accrued interest (proceeds to Co., 99.35) on Feb. 25, 1988 thru The First Boston Corp., Kidder, Peabody & Co., Inc., Merrill Lynch Capital Markets and associates.

#### 11. Union Pacific Corp. 9 3/4% notes, due 1993:

Rating — A1

**AUTH.** — \$200,000,000; outstg., May 25, 1988, \$200,000,000.

**DATED** — June 1, 1988. **DUE** — June 1, 1993.

**INTEREST** — J&D 1 to holders registered M&N 15.

**TRUSTEE** — Citibank, N.A.

**DENOMINATION** — Fully registered, \$1,000 and any multiple of \$1,000. Transferable and exchangeable without service charge.

**SECURITY** — Not secured, ranks equally and ratably with other unsecured and unsubordinated debt of the Co.

**INDENTURE MODIFICATION** — Indenture may be modified, except as provided, with consent of a majority amount of notes outstg.

**RIGHTS ON DEFAULT** — Trustee, or 25% of notes outstg., may declare principal due and payable (30 day's grace for payment of interest).

**PURPOSE** — Proceeds will be principally used to repay a portion of the Company's outstg. commercial paper borrowings and the balance will be employed to fund part of the cost of acquiring the Beard shares.

**OFFERED** — (\$200,000,000) at 99.85 plus accrued interest (proceeds to Co., 99.225) on May 25, 1988 thru The First Boston Corp., Merrill Lynch Capital Markets, Shearson Lehman Hutton Inc. and associates.

#### CAPITAL STOCK

Union Pacific Corp. common; par \$2.50:

**AUTH.** — 300,000,000 shs.; outstanding, Dec. 31, 1987, 105,084,947 shs.; in treasury 11,082,460 shs.; reserved for options and conversions, 12,797,568 shs.; par \$2.50.

Par changed from \$10 to \$5 by 2-for-1 split, Jan. 27, 1977 and from \$5 to \$2.50 by 2-for-1 split, May 9, 1980.

**VOTING RIGHTS** — Has one vote per share with right of cumulative voting for directors.

**PREEMPTIVE RIGHTS** — None.

**DIVIDENDS PAID** — (since 1968 as follows):

1969.....\$0.50 1970-72.....\$2.00 1973.....\$2.24  
1974.....2.60 1975-76.....2.80 1977.....0.85

On \$5 par sh. after 2-for-1 split.

1977.....1.27 1/2 1978.....2.00 1979.....2.30  
1980.....1.40

On \$2.50 par sh. after 2-for-1 split:

1980.....0.70 1981.....1.60 1982-86.....1.80  
1987.....2.00 1988.....2.05

¶To Oct. 3.

**DIVIDEND REINVESTMENT PLAN** — Under the Co.'s Dividend Reinvestment Plan, which is administered by Morgan Guaranty Trust, N.Y. stockholders may reinvest their cash dividends each quarter in Co. common stock. In addition, an optional cash investment may be made through the plan by adding cash deposits in any multiple of \$10 up to \$5,000 per quarter. Cost for the purchase of shares through the plan consists of a 5% per purchase (up to a maximum of \$2.50 bank service charge and a proportionate amount of the total brokerage commission paid by the bank).

**ISSUED** — Issued in 1969 in exchange for U.P.R.R. Co. common on share-for-share basis.

**TRANSFER AGENT & REGISTRAR** — Morgan Shareholder Services Trust Co., New York.

**DIVIDEND DISBURSING AGENT** — Morgan Shareholder Services Trust Co., New York.

**LISTED** — On NYSE (Symbol: UNP).

**PRICE RANGE** — 1987 1986 1985 1984 1983  
High ..... 86 3/8 67 1/8 55 1/4 52 1/4 61 1/8  
Low ..... 45 1/8 46 1/2 39 1/4 34 1/4 44

**Preferred Retired:** All outstg. \$7.25 convertible pfd. stk. was redeemed on Mar. 1, 1988 at \$39 per sh.

## UNION PACIFIC RAILROAD COMPANY

(Controlled by Union Pacific Corp.)

### HISTORY

**Corporate History:** The Union Pacific Railroad Company was incorporated under the laws of Utah, July 1, 1897, for fifty years, as successor by reorganization of the Union Pacific Railway Company. In 1945, charter was extended to July 1, 1997.

Latter company was organized upon consolidation of Union Pacific Railroad Co. (obtained charter under an Act of Congress in 1862 as a Civil War necessity), Kansas Pacific Railway Co. and Denver Pacific Railway & Telegraph Co., effective Jan. 24, 1880.

**Early Developments:** In 1865, construction was started at Omaha, Neb., westward to meet a line being constructed eastward from Sacramento by the Central Pacific Railway Co. (organized in 1861). The two projects were completed on May 10, 1869 — the first railroad to link the Pacific Coast with the Missouri River.

Opened with 1,006 miles of line in 1869, the Union Pacific, although part of the first transcontinental railroad, for many years had an unfortunate history. The "Credit Mobilier" caused a scandal in the construction days and subsequent over-extension and under-capitalization left their burden upon the Union Pacific Railway Co., predecessor to the present company. Meanwhile Union Pacific Railway Company's debt to the Government had become a problem and in 1891 the road was only kept going through the issue of \$24,000,000 promissory notes, due in 1894. Diminished traffic in 1893 brought on a receivership.

In the reorganization which followed in 1897, the Government liens on the Union Pacific and Kansas Pacific roads were fully discharged at a cost of \$60,201,856. The bonded debt (of the Union Pacific proper) amounted to about \$120,000,000 and the capital stock of \$60,868,500, which was assessed 15%, were provided for, but about \$20,000,000 of the notes were not considered. The collateral for these notes, consisting principally of securities of subsidiaries, was later foreclosed and these properties separately reorganized.

The accession of E.H. Harriman began a period in which the Union Pacific was established as one of the great and stable railway systems of the country. A large interest in the Chicago and Alton was acquired and control of the Southern Pacific was gained in 1901. A spectacular attempt to control the Northern Pacific created a near-panic in Wall Street and led to the formation of the Northern Securities Co. This company was declared a violation of the Anti-Trust Act by the U.S. Supreme Court in 1904 and the securities held were distributed. The Southern Pacific holdings were ordered relinquished by the Court in 1913.

**Other Property Acquisitions, Mergers and Dispositions:** On Jan. 1, 1936, the company acquired control by lease of Oregon Short Line Railroad Co., Oregon-Washington Railroad & Navigation Co. and Los Angeles & Salt Lake Railroad Co. The company owns, and for many years has owned, directly or indirectly, the entire capital stock of said lessor companies except directors' qualifying shares of Oregon-Washington Railroad & Navigation Co., on which the company holds purchase options. The railroad properties of company and the said lessor companies have long been operated as a single system under common control

and management, known as the Union Pacific System.

On Jan. 1, 1936, the company also acquired control by lease of The St. Joseph & Grand Island Railroad Co. The company owns the entire capital stock of said lessor company except 546.8 shares, being about four-tenths of one per cent of entire capital stock. Prior to Jan. 1, 1936, The St. Joseph & Grand Island Railroad Co. had not been operated as part of Union Pacific System, although for a number of years the company has owned over 95 per cent of its capital stock and in the proceedings before the ICC on the application of company for approval of its control by lease of said lessee companies, Laramie, North Park & Western Railroad Co. and Pacific & Idaho Northern Railroad Co. intervened. The Commission accordingly approved the leases, subject to a condition that the company agree and undertake to abide by such findings as the Commission might thereafter make with respect to acquisition of railroads of the two intervening companies in auxiliary proceedings. The company accepted the condition and, pursuant thereto, subsequently acquired 24,964.4 of the 25,000 shares of common capital stock of Laramie, North Park & Western Railroad Co. outstanding, and all the properties of the Pacific and Idaho Northern Railroad Co.

In the early 1930's the company acquired entire capital stock of Union Pacific Stages, Inc., and 70.9 percent of the capital stock of Interstate Transit Lines which percentages were 66.15% and 51%, respectively, at Dec. 31, 1951. On Oct. 1, 1952, entire holdings in latter company were sold to Greyhound Corp.

Saratoga & Encampment Valley R.R. Co. and Laramie, North Park & Western R.R. Co., wholly-owned subsidiaries, were liquidated July 31 and Nov. 30, 1951, respectively and properties acquired by Union Pacific R.R. Co.

In 1958 company acquired stock of Spokane International R.R. Co. (see appended statement) on basis of 1.04 shares of Union Pacific common for each share of Spokane International stock. Holdings total 99.94% of stock.

Joint acquisition with Southern Pacific Co. of Portland Traction Co., subsidiary of Portland Transit Co., for \$4,275,000 cash was approved Dec. 27, 1961 by ICC. As of Dec. 31, 1967 company and Southern Pacific Co. each owned 42,245 shares (50%).

In 1962, Union Pacific Coal Co., wholly-owned subsidiary, was dissolved and its properties taken over by the Railroad Company.

In Dec. 1964, company sold its Sun Valley, Idaho, resort.

In 1968, acquired Mount Hood R.R. Co. for \$1,176,678.

In Jan. 1970, acquired Champlin Petroleum Co. and Pontiac Refining Co., both of Fort Worth, Tex., for \$240,000,000 in cash, half payable at closing and balance in 3 equal annual installments.

Effective Apr. 1, 1978, Co. and Southern Pacific Transportation Co. divided assets and operations of Pacific Fruit Express Co.

In Aug. 1980, acquired from Chicago, Milwaukee, St. Paul & Pacific Railroad Co. about 100 miles of track in Washington and Idaho for \$19,000,000.

During 1987, Union Pacific Railroad Co. merged with the following leased line and subsidiary companies: Ees Chutes Railroad Co.; Los Angeles and Salt Lake Railroad Co.; Mount Hood Railway Co.;

Oregon Short Line Railroad Co.; Oregon-Washington Railroad and Navigation Co.; Spokane International Railroad Co.; Yakima Valley Transportation Co.; The Western Pacific Railroad Co.; Sacramento Northern Railway and Tidewater Southern Railway Co.

During 1988, Union Pacific Corp. acquired Missouri-Kansas-Texas Railroad Co. (M-K-T). M-K-T has become a subsidiary of Missouri Pacific Railroad, which is a subsidiary of Union Pacific Corp. Union Pacific paid \$102,000,000 for the M-K-T's outstg. shs. and will assume M-K-T's long-term debt of approx. \$250,000,000. Approx. 98% of the shs. of the M-K-T were owned by Katy Industries, which elected to take part of the payment for its shs. in the form of a 15-year 7 1/2% Missouri Pacific installment note and is exchangeable for Union Pacific Corp. com. stk. at the price of \$63.36 per sh. Public shareholders of the M-K-T will receive \$52.26 per sh.

**Transfer of Non-Railroad Activities to Parent** — On June 26, 1971, all non-transportation subsidiaries were transferred to Union Pacific Corp. (for details, see preceding statement).

**Location:** Union Pacific Railroad operates in 20 states: Arkansas, California, Colorado, Idaho, Iowa, Illinois, Kansas, Louisiana, Missouri, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington and Wyoming. The total population for all states was: 1980, 93,019,015.

Lines extend from Kansas City, Missouri, and Council Bluffs, Iowa, westward, serving important cities of Omaha, Neb.; Denver, Colo.; Cheyenne, Wyo.; Salt Lake City and Ogden, Utah; Las Vegas, Nev.; Los Angeles, Cal.; Pocatello, and Boise, Idaho; Butte, Mont.; Portland, Ore.; and Spokane and Seattle, Wash.

Lines extend eastward from Council Bluffs, Iowa and Kansas City, Missouri to Chicago, Ill., St. Louis, Mo.; Little Rock, Ark.; Memphis, Tenn.; and New Orleans, La.

Lines extend west and south to Reno, Nev.; Sacramento, San Francisco, Oakland, San Jose, and Long Beach, Calif.; Fort Worth and Dallas, Tex.; Wichita and Topeka, Kan.; El Paso, N.M.

**Southern Pacific — Central Pacific Settlement** — The decision of the Interstate Commerce Commission on Feb. 6, 1923, permitting continued control of the Central Pacific by the Southern Pacific Co. prevented disruption of that system, and incidentally imposed conditions for the protection of the route via Ogden and the Union Pacific against diversion of the traffic to the Southern Pacific's El Paso route, viz: requiring the maintaining of through passenger, mail and express train service in connection with Union Pacific between San Francisco and Chicago, and perishable freight train service between Roseville and Omaha, equal to the service afforded by Southern Pacific with other connections, the publication and maintenance of rates via Ogden between all points on its lines west of Banning, Cal., and eastern points no higher than those applicable by any route in which it participates, and co-operation with Union Pacific to secure by active solicitation the routing of maximum freight traffic via Ogden.

In 1959 the ICC approved an application by the Southern Pacific for authority to merge the Central Pacific, a wholly-owned subsidiary. However, latter agreed, in its application, to continue to be bound by the conditions in the Commission's order



of 1923, and Commission, in authorizing the merger, stated that such authorization should not be construed as affecting in any way the interests of Union Pacific and Denver & Rio Grande Western in the pending case involving solicitation of traffic.

On Jan. 6, 1966 ICC granted Denver & Rio Grande's petition for modification of condition in commission's 1923 order approving Southern Pacific's control of Central Pacific. Union Pacific and Southern Pacific filed a joint suit before three judge Federal District Court at Omaha to have the Jan. 6, 1966 ICC order set aside. On Dec. 6, 1967 Federal District Court upheld the ICC order. A notice of appeal to the U.S. Supreme Court was filed by Union Pacific and Southern Pacific on Dec. 27, 1967.

The Supreme Court approved the lower court's decision.

**Dissolution Decree:** In 1908 the Government instituted suit against Union Pacific under the Sherman Anti-Trust Law which suit was first decided in favor of company by United States Circuit Court, but on appeal the United States Supreme Court decided Dec. 2, 1912 in favor of the Government and required company to dispose of its holdings in Southern Pacific. A plan of compliance with this decision was finally approved by the Court June 30, 1913, whereby Union Pacific transferred to the Pennsylvania R.R. Co. 382,924 (of 1,266,500 shares owned of Southern Pacific in exchange for 212,736 preferred shares and 212,736 common shares of the B.&O. stock held by the Pennsylvania, and the balance (883,576 shares) of Southern Pacific stock owned by Union Pacific was offered at \$92 per share to Union Pacific stockholders for subscription on or before Sept. 2, 1913; the offering was underwritten. On Jan. 8, 1914, Union Pacific directors approved the distribution to stockholders of \$28,480,000 B.&O. preferred and \$53,607,800 B.&O. common.

**ICC Valuations:** The Oct. 18, 1933, Interstate Commerce Commission's valuation of \$501,258,082 on Union Pacific system carried valuations of the component parts as follows:

Union Pacific proper, \$243,440,000 of property owned and used for common carrier purposes, \$980,852 owned but not used and \$628,116 of property used but not owned;

Oregon Short Line owned and used \$104,000,000; owned but not used \$2,076,920 and used but not owned \$8,052,715;

Oregon-Washington Railroad & Navigation Co., owned and used \$121,748,600; owned but not used \$8,679,813 and used but not owned \$6,210,826;

Des Chutes Railroad owned but not used \$5,750,000;

St. Joseph & Grand Island Railway owned and used \$7,741,764; owned but not used \$7,930; used but not owned \$452,185;

Ogden Union Depot owned and used \$967,058 and used but not owned \$853,000;

Northern Pacific Terminal owned and used \$6,872,612; owned but not used \$54,177 and used but not owned \$176,006; and

Leavenworth Depot owned and used \$115,200.

The foregoing figures are as of June 30, 1916 for Oregon Short Line, Oregon-Washington Railroad & Navigation Co. and Des Chutes Railroad Co.; as of June 30, 1919 for Union Pacific itself; as of June 30, 1919 for St. Joseph & Grand Island; as of June 30, 1916 for Northern Pacific Terminal Co. and Ogden Union Railway & Depot Co. A total of \$15,845,234 net working capital was included in the total.

**Los Angeles & Salt Lake R.R. Suit:** On June 7, 1923, the ICC issued its first Final Valuation Order as of June 30, 1914, of properties of Los Angeles & Salt Lake R.R. Co. In a suit brought by company in United States District Court at Los Angeles to cancel and enjoin order of the Commission establishing such value, the Court found that value of property greatly exceeded amount found by Commission; that there was no "value for ratemaking purposes" as found by Commission but only one value, namely, its true actual value for any and all purposes; and accordingly, entered an order setting aside the Commission's order and enjoining its use for any purpose. An appeal was then taken by the Government and the Commission to the United States Supreme Court, which reversed decree of District Court and ordered suit dismissed upon the ground that courts have no jurisdiction to review orders of Commission in valuation proceedings by direct suits of this character brought before such

valued, are actually used against carriers in some rate or other proceeding. The Supreme Court's opinion did not dispose of, or consider, any of the contentions as to the invalidity of the valuation.

The Commission fixed a valuation of \$40,000,000 on the property, whereas the carrier argued that it was entitled to a valuation of \$70,000,000.

**Lease of Subsidiaries' Properties—Unification:** As of Jan. 1, 1936, company leased the railroads and properties of the following subsidiaries, pursuant to ICC authorization granted July 26, 1935: Oregon Short Line R.R. Co. (entire capital stock owned by Union Pacific); Oregon-Washington R.R. & Navigation Co. (entire capital stock, except directors' qualifying shares, owned by Oregon Short Line R.R. Co.); Los Angeles & Salt Lake R.R. Co. (half of capital stock owned by Union Pacific and half by Oregon Short Line R.R. Co.); and St. Joseph & Grand Island Ry. Co. (99.57% of entire capital stock owned by Union Pacific). Prior to Jan. 1, 1936, Union Pacific R.R. Co., Oregon Short Line R.R. Co., Oregon-Washington R.R. & Navigation Co. and Los Angeles & Salt Lake R.R. Co. had been designated as the "Union Pacific System."

The leases run from year to year until terminated by either party after at least 3 months' written notice to other of its election to terminate at end of calendar year then current. Union Pacific, as lessee, operates the leased properties and maintains them in repair, and indemnifies for accident claims, etc. As rental for leased properties, Union Pacific pays in each instance, interest on outstanding funded indebtedness, depreciation and amortization of bond discount to extent that these items should be allowed for income tax purposes, legal requirements for maintenance of lessor's corporate existence, but only to extent that lessor's income from other sources are insufficient for purpose; in addition, Union Pacific pays a sum sufficient to pay dividends on small amount of St. Joseph & Grand Island stock not owned by it, at rate of \$5 per 1st preferred, \$4 per 2nd preferred and \$2 per common share per annum. Union Pacific waived its rights to participate as a stockholder in any dividends paid by St. Joseph & Grand Island during term of lease.

Authorization of the ICC for above leases was conditioned upon Union Pacific's complying by such findings as the Commission might make with respect to acquisition, at their commercial value, of Laramie, North Park &

Western R.R. Co. and Pacific & Idaho Northern Co. or as to operation of these two short lines, or acquisition and operation, in a subsequent proceeding before the Commission.

The above leases were approved by the ICC, and the Union Pacific acquired, and held 24,964.4 common shares (out of a total of 25,000 shares outstanding) of Laramie, North Park & Western R.R. Co. for \$648,856, and the Oregon Short Line R.R. Co. acquired the properties of Pacific and Idaho Northern Railway Co. at a foreclosure sale for \$64,805. The Laramie, North Park & Western was merged into Union Pacific in 1951. Line extended from Laramie, Wyoming, where it connected with Union Pacific, to Coalmont, Colorado, a distance of 111 miles, and was operated by the Union Pacific, while the line of the Pacific and Idaho Northern which extends from Weiser, where it connects with Oregon Short Line R.R. to New Meadows, Idaho, about 90 miles, is now being operated as a branch line.

**Agreement With Chicago and North Western Railroad:** In December 1978, Union Pacific concluded an agreement with the Chicago and North Western Railroad which opened the way for Union Pacific's participation in coal traffic from Wyoming's Power River Basin. Under the agreement, the two railroads cooperated in construction of a 107-mile rail project to link a C&NW joint line into the basin with Union Pacific lines near the Wyoming-Nebraska border. The Connector Line opened in August 1984, three months ahead of schedule. It involved construction of the longest stretch of new railroad built in the United States in the past 48 years. It is estimated that by 1989, 25 million tons of coal a year will be carried on the line. UP and C&NW have already signed contracts with utilities in Arkansas, Texas, Minnesota, Wisconsin and Louisiana.

## CONTROL

Union Pacific Corp. (see preceding statement) owns 100% of outstanding preferred and common shares.

## BUSINESS

Union Pacific Railroad (including Missouri Pacific Railroad Co.) is the third largest railroad in the United States, with nearly 21,000 route miles linking West Coast and Gulf Coast ports with the Midwest. Major categories of freight hauled by the Railroad are coal, grain, chemicals, automotive and machinery, forest products and intermodal traffic. In 1987, coal was the largest commodity in terms of total revenue ton-miles (28.0%), while chemicals traffic produced the highest percentage to freight revenue (22.5%).

The Railroad has sharpened its focus on customer responsiveness in recent years through the development of a National Customer Service Center in St. Louis, emphasis on high-speed information technology to respond to customer requests, and reorganization of the Operating and Marketing departments.

## SUBSIDIARIES

Company controlled the following companies to the extent indicated:

Camas Prairie R.R. Co. (50%)  
Denver Union Terminal Ry. Co. (16.67%)  
Kansas City Terminal Ry. Co. (8.33%)  
Portland Terminal Railroad Co. (40%)  
Longview Switching Co. (33.33%)  
Ogden Union Ry. & Depot Co. (50%)  
Union Pacific Fruit Express Co. (100%)  
Portland Traction Co. (50%)  
St. Joseph Terminal R.R. Co. (50%)  
Trailer Train Co. (2.44%)  
Union Pacific Motor Freight Co. (100%)

Other System Companies (wholly-owned within the system): St. Joseph & Grand Island Ry. Co.

## MANAGEMENT

### Officers

M.H. Walsh, Chmn. & Chief Exec. Off.  
Drew Lewis, Chmn. Exec. Comm.  
J.R. Davis, Exec. Vice-Pres.—Oper.  
F.B. Henderson, Exec. Vice-Pres.—Mktg. & Sales  
J.R. Colvin, Jr., Vice-Pres.—Mktg.  
R.L. Godfrey, Vice-Pres., Mktg.—Planning & Service  
D.A. Shum, Vice-Pres.—Intermodal  
J.M. Ostrow, Vice-Pres.—Indus. Devel. & Prop. Mgmt.  
R.G. Medahl, Vice-Pres., Sales  
W.A. Bales, Vice-Pres., Purch. & Mat.  
J.V. Dolan, Vice-Pres., Law  
W.J. Farrell, Vice-Pres.  
J.H. Rebensdorf, Vice-Pres.—Strategic Planning  
J.M. Kyle, III, Vice-Pres.  
G.S. Sines, Vice-Pres.—Info. & Commun. Sys.  
R.K. Davidson, Vice-Pres.—Oper.  
R.A. Ames, Vice-Pres.—Fin.  
T.L. Watts, Vice-Pres.—Labor Rel. & Personnel

### Directors

R.P. Bauman, London, England  
W.S. Cook, New York  
E.V. Conway, New York  
W.D. Grant, Kansas City, MO.  
S.F. Eccles, Salt Lake City  
J.B. Ferry, Boise, ID  
E.T. Gerry, Jr., New York  
J.R. Hope, Washington, D.C.  
D.B. Jenks, St. Louis, MO.  
H.A. Kissinger, New York  
J.R. Meyer, New York  
M.F. Miller, Omaha, NE  
H.B. Mitchell, New York  
M.K. Milliken, New York  
E.L. Palmer, New York  
R.W. Roth, Portland, OR  
W.B. Shapleigh, Portland, OR  
R.D. Simmons, Washington, D.C.  
M.H. Walsh, Omaha, NE  
Drew Lewis, New York

Members of executive committee.

Auditors: Deloitte Haskins & Sells.

Annual Meeting: Third Friday of Apr. in Salt Lake City, Utah.

Headquarters: 1416 Dodge Street, Omaha, NE 68179.

## MILEAGE—Union Pacific Railroad combined with Missouri Pacific Railroad, Dec. 31, 1987

On Dec. 31, 1987, operated a total of 33,588 miles as follows:

### SUMMARY OF MILEAGE OPERATED, DEC. 31, 1987

By type of operation:	First Track	Second Track	Third Track	Sidings and Yard Track	Totals
Owned.....	18,478	1,753	81	8,393	28,705
Jointly owned.....	83	69	.....	440	592
Owned by proprietary cos.....	248	13	.....	71	332
Operated under lease for fixed sum.....	26	12	.....	74	112
Operated under contract for contingent rent.....	1	.....	.....	3	4
Trackage rights.....	2,108	644	2	1,089	3,843
Total operated.....	20,944	2,491	83	10,070	33,588

## BALANCE SHEETS (Cont'd):

	1987	1986	1985	1984	1983	1982	1981
Other current assets	135,836	155,037	151,010	32,837	31,295	71,746	127,572
<b>Total current assets</b>	<b>797,445</b>	<b>803,931</b>	<b>807,714</b>	<b>567,351</b>	<b>595,499</b>	<b>477,798</b>	<b>467,513</b>
Special funds & other invest. & adv.	64,282	53,166	33,144	14,114	9,736	12,511	16,679
Investments	257,867	229,231	211,429	214,369	148,792	82,688	72,195
<b>Transportation Property:</b>							
Road	5,746,581	5,553,397	5,299,145	2,733,090	2,602,342	2,539,388	1,317,711
Equipment	3,850,386	3,852,201	4,030,386	2,035,382	2,108,090	2,183,336	2,252,908
General expenditures	138,520	123,818	115,714	9,278	5,525	4,532	28,593
Other elements of investment	.....	.....	.....	.....	.....	.....	124,719
Construction work in progress	.....	.....	.....	.....	.....	.....	22,015
<b>Total transportation property</b>	<b>9,735,487</b>	<b>9,529,416</b>	<b>9,445,245</b>	<b>4,777,750</b>	<b>4,715,957</b>	<b>4,718,256</b>	<b>3,745,946</b>
Less: depreciation & amortization	2,995,462	2,965,262	2,891,080	1,662,073	1,614,827	1,543,059	820,693
<b>Net transportation property</b>	<b>6,740,025</b>	<b>6,564,154</b>	<b>6,554,165</b>	<b>3,115,677</b>	<b>3,101,130</b>	<b>3,175,197</b>	<b>2,925,253</b>
Miscellaneous physical property	28,745	29,957	30,156	11,897	9,827	9,359	9,168
<b>Net property</b>	<b>6,768,770</b>	<b>6,594,111</b>	<b>6,584,321</b>	<b>3,127,574</b>	<b>3,110,957</b>	<b>3,184,556</b>	<b>2,934,421</b>
Other assets	34,080	45,738	31,548	15,018	10,916	10,906	16,437
Other deferred charges	24,475	22,021	28,819	8,492	20,830	6,652	9,938
<b>Total assets</b>	<b>7,946,919</b>	<b>7,748,198</b>	<b>7,696,975</b>	<b>3,946,918</b>	<b>3,896,730</b>	<b>3,775,111</b>	<b>3,517,183</b>
<b>LIABILITIES</b>							
<b>Current Liabilities:</b>							
Loans and notes payable	.....	.....	.....	11	.....	.....	.....
Accounts and bills payable	9,042	14,176	16,375	2,977	1,475	1,630	2,453
Miscellaneous accounts payable	165,564	133,595	131,612	90,312	93,957	75,612	72,110
Interest & dividends payable	40,495	43,271	47,099	14,479	15,717	17,144	16,557
Accrued accounts pay.	615,341	680,493	500,242	239,151	205,656	178,211	177,475
Accrued tax liability	65,282	68,659	50,255	27,062	39,697	38,800	48,876
Payable to affiliated companies	46,745	710	91,984	.....	.....	14,710	108,986
Other current liabilities	4,203	4,972	15,659	12,363	10,437	10,326	24,322
Long term debt due within year	137,545	155,801	140,511	66,300	59,445	56,786	48,516
<b>Total current liabilities</b>	<b>1,084,217</b>	<b>1,101,677</b>	<b>993,737</b>	<b>452,655</b>	<b>426,384</b>	<b>393,219</b>	<b>499,295</b>
Long term debt	407,412	410,234	420,156	48,779	48,479	43,279	43,279
Equipment obligations	701,613	812,346	887,619	375,123	445,556	511,630	471,245
Capitalized lease obligations	20,148	26,705	.....	.....	.....	.....	.....
Payable to affiliated companies	111,985	64,498	49,350	77,761	66,173	54,981	47,000
Unamortized disc. and premium on L.T.D.	dr2,368	dr3,681	dr4,061	1,695	1,724	2,065	1,669
Other long-term liab. & deferred credits	377,765	378,276	181,611	81,405	79,735	65,738	67,901
Deferred income tax credits	2,003,186	1,947,137	1,989,052	1,010,967	971,100	899,823	703,831
<b>Shareholders' Equity:</b>							
Preferred stock	.....	.....	.....	74,843	74,843	74,843	74,843
Common stock	224,288	224,288	224,287	224,287	224,287	224,287	224,287
<b>Total capital stock</b>	<b>224,288</b>	<b>224,288</b>	<b>224,287</b>	<b>299,130</b>	<b>299,130</b>	<b>299,130</b>	<b>299,130</b>
Additional capital	315,702	315,702	315,712	35,517	35,517	11,635	11,635
Retained income	2,702,971	2,471,016	2,606,319	1,567,276	1,526,380	1,497,741	1,375,536
<b>Total stockholders' equity</b>	<b>3,242,961</b>	<b>3,011,006</b>	<b>3,146,309</b>	<b>1,901,923</b>	<b>1,861,027</b>	<b>1,808,506</b>	<b>1,686,301</b>
<b>Total liabilities &amp; equity</b>	<b>7,946,919</b>	<b>7,748,198</b>	<b>7,696,975</b>	<b>3,946,918</b>	<b>3,896,730</b>	<b>3,775,111</b>	<b>3,517,183</b>
<b>Net current assets</b>	<b>d286,772</b>	<b>d297,746</b>	<b>d186,023</b>	<b>114,696</b>	<b>169,115</b>	<b>84,579</b>	<b>d31,782</b>
<b>Property Account Analysis</b>							
<b>INVESTMENT IN ROAD &amp; EQUIP.</b>							
Road	389,539	368,861	468,609	173,247	99,853	N.A.	84,640
Equipment	99,625	102,724	149,911	24,016	11,186	N.A.	57,168
Construction work in progress	14,839	8,166	4,006	12,429	cr9,456	N.A.	cr5,029
<b>Total</b>	<b>504,003</b>	<b>479,751</b>	<b>622,526</b>	<b>209,692</b>	<b>101,583</b>	<b>N.A.</b>	<b>136,779</b>
<b>CREDITS FOR PROPERTY RETIRED</b>							
Road	196,350	115,452	134,697	N.A.	15,694	N.A.	7,733
Equipment	101,445	280,909	203,917	N.A.	88,107	N.A.	64,057
Other	137	.....	.....	N.A.	.....	N.A.	160
<b>Total</b>	<b>297,932</b>	<b>396,423</b>	<b>338,718</b>	<b>N.A.</b>	<b>103,891</b>	<b>N.A.</b>	<b>71,950</b>
<b>NET CHANGE</b>	<b>206,071</b>	<b>83,328</b>	<b>283,808</b>	<b>N.A.</b>	<b>d2,308</b>	<b>N.A.</b>	<b>64,829</b>

Revised for change to depreciation accounting for railroad track structures.

Certain amounts restated to reflect pooling of interests through acquisition of Missouri Pacific Railroad Co.

## Classification of Securities Owned, as of Dec. 31, 1987

## Investments in Affiliated Companies

Class	Issuing Company (% of control):	Total book value	Dividends or Interest Amt. credited to income
A1	Alameda Belt Line (50)	\$471,000	.....
A1	Alton & Southern Railroad (50)	8,000,000	.....
A1	American Refrig. Trans. Co. (100)	378,000	.....
A1	Ark. & Mts. Ry. Bridge & Term. Pfd. (33.33)	550,000	.....
A1	Ark. & Mts. Ry. Bridge & Term. Com. (33.33)	290,000	.....
A1	Belt Railway of Chicago (8.33)	240,000	.....
A1	Brownville & Matamoros Bridge Co. (50)	250,000	.....
A1	Camas Prairie R.R. Co. (50)	50,000	.....
A1	Central Cal. Traction Co. (33.33)	664,000	.....
A1	Chicago & Western Indiana RR (20)	1,000,000	.....
A1	Denver Union Terminal Ry. Co. (16.67)	5,000	.....
A1	Galveston, Houston & Henderson RR (50)	926,000	.....
A1	Houston Belt & Term. Ry. (50)	13,000	.....
A1	Kansas City Terminal Ry. Co. (16.67)	290,000	.....
A1	Longview Switching Co. (33.33)	1,000	.....
A1	Missouri Pacific Truck Lines (100)	2,085,000	.....
A1	Oakland Term. Ry. (50)	113,000	.....
A1	Portland Terminal R.R. Co. (40)	1,879,000	.....
A1	Ogden Union Ry. & Depot Co. (50)	13,000	.....
A1	Portland Traction Co. (50%)	1,799,000	.....
A1	Southern Illinois & Missouri Bridge Co. (60)	26,000	.....
A1	Texas City Term. Ry. (33.33)	639,000	1,000,000
A1	St. Joseph Terminal R.R. Co. (50)	.....	.....
A1	Trailer Train Co. (9.76)	330,000	.....
A1	Union Pacific Motor Freight Co. (100)	5,000	.....
A1	Union Pacific Fruit Express Co. (100)	14,622,000	.....
A3	Missouri Improvement Co. (100)	5,105,000	.....
A3	Standard Realty & Development (100)	12,003,000	.....
A3	Union Pacific Communication Corp. (100)	1,000	.....
A3	Union Pacific Freight Service (100)	1,000	.....
A3	Transportation Data Exchange, Inc. (24.81)	450,000	.....
	<b>Total Class A</b>	<b>\$55,566,000</b>	<b>1,000,000</b>
D1	St. Joseph Terminal R.R. Co.	11,000	.....
D1	Terminal RR Assn. of St. Louis	2,892,000	338,000
D1	Trailer Train Co.	1,544,000	108,000
	<b>Total Class D</b>	<b>\$4,611,000</b>	<b>\$457,000</b>
E1	Camas Prairie R.R. Co.	\$250,000	15,000
E1	Denver Union Terminal Ry. Co.	566,000	.....
E1	Harbor Belt Line R.R. Co.	15,000	.....
E1	Kansas City Terminal Ry. Co.	6,870,000	.....

Class	Issuing Company (% of control):	Total book value	Dividends or Interest Amt. credited to income
E1	Longview Switching Co. ....	37,000	.....
E1	Ogden Union Ry. & Depot Co. ....	1,204,000	.....
E1	St. Joseph Terminal R.R. Co. ....	154,000	.....
E1	Alameda Belt Line ....	20,000	.....
E1	Ark. & Mfs. Ry. Bridge & Term. ....	6,000	.....
E1	Belt Ry. of Chicago ....	2,543,000	.....
E1	Chicago & Western Indiana RR ....	10,598,000	.....
E1	Claveston, Houston & Henderson RR ....	844,000	.....
E1	Houston Belt & Term. Ry. ....	5,330,000	.....
E1	Missouri Pacific Airfreight Inc. ....	1,366,000	.....
E1	Missouri Pacific Intermodal Transport Inc. ....	(5,000)	.....
E1	Missouri Pacific Truck Line Inc. ....	10,863,000	.....
E1	Oakland Term. Ry. ....	401,000	.....
E1	Port Term. Ry. Assn. ....	206,000	.....
E1	Southern Illinois & Missouri Bridge Co. ....	974,000	.....
E1	Term. RR Assn. of St. Louis ....	1,484,000	.....
E1	Wichita Term. ....	2,000	.....
E3	AMCI ....	50,000	.....
E3	Union Pacific Freight Service ....	13,419,000	.....
E3	Missouri Improvement Co. ....	1,189,000	.....
E3	Transportation Data Exchange Inc. ....	45,000	.....
E3	Union Pacific Communication Corp. ....	5,937,000	.....
Total Class E .....		\$64,368,000	\$15,000
Grand Total .....		\$124,545,000	\$1,472,000

Carried at nominal value of \$1.00.

(A) Stocks:

- (1) Carrier corporations — active.
- (2) Carrier corporations — inactive.
- (3) Noncarrier corporations — active.
- (4) Noncarrier corporations — inactive.

(B) Bonds (including U.S. Government Bonds).

(C) Other secured obligations.

(D) Unsecured notes.

(E) Investment advances.

The sub-classification of classes (B), (C), (D), and (E) is the same as that provided for class (A).

# LONG TERM DEBT — Maturities, Descriptions and Ratings

## Chronological Record of Debt Maturities to Dec. 31, 1991

(See also Guaranties and Suretyships on a following page)

	1987	
Equipment obligations .....	\$48,195,000	
	1988	
Equipment obligations .....	\$44,345,000	
	1989	
Equipment obligations .....	\$41,895,000	
	1990	
Equipment obligations .....	\$28,395,000	
	1991	
Equipment obligations .....	\$28,395,000	

Note: Equipment obligations include conditional sales agreements.

## Equipment Trust Records and Ratings

(As of Dec. 31, 1986)

Name of Issue:	Interest Payable	Serially to	Out-standing	Original Issue	Cost of Equipment	Paid in Cash	Security	Rating
1. U.P.R.R. Co. eq. 7s of 1973 .....	J&J1	1988	\$1,840,000	\$13,800,000	117,431,500	20%	U	Aaa
2. U.P.R.R. Co. eq. 7 1/4s of 1973 .....	M&S1	1988	1,920,000	14,400,000	118,804,650	20%	U	Aaa
3. U.P.R.R. Co. eq. 7 1/2s of 1973 .....	M&S1	1988	1,160,000	8,700,000	111,079,000	20%	U	Aaa
4. U.P.R.R. Co. eq. 7 3/4s of 1974 .....	J&J1	1989	3,000,000	15,000,000	118,877,850	20%	U	Aaa
5. U.P.R.R. Co. eq. 8 1/4s of 1974 .....	F&A1	1989	3,000,000	15,000,000	118,968,175	20%	U	Aaa
6. U.P.R.R. Co. eq. 8 1/2s of 1974 .....	F&A1	1989	46,000,000	15,000,000			U	Aaa
7. U.P.R.R. Co. eq. 8 3/4s of 1974 .....	F&A1	1989	3,000,000	15,000,000	118,968,175		U	Aaa
8. U.P.R.R. Co. eq. 8 1/2s of 1974 .....	J&J1	1989	4,000,000	15,000,000	19,111,700		U	Aaa
9. U.P.R.R. Co. eq. 8s of 1975 .....	M&N1	1989	3,000,000	15,000,000	18,868,525		U	Aaa
10. U.P.R.R. Co. eq. 8 1/2s of 1975 .....	F&A1	1990	3,000,000	15,000,000	19,193,950		U	Aaa
11. U.P.R.R. Co. eq. 9s of 1975 .....	M&S1	1990	20,000,000	60,000,000	176,266,264		U	Aaa
12. U.P.R.R. Co. eq. 8 3/4s of 1975 .....	A&O1	1990	4,000,000	15,000,000	118,790,050		U	Aaa
13. U.P.R.R. Co. eq. 7 7/8s of 1976 .....	J&J1	1991	6,500,000	19,500,000	124,481,000		U	Aaa
14. U.P.R.R. Co. eq. 8 1/4s of 1976 .....	A&O1	1991	6,500,000	19,500,000	124,375,000		U	Aaa
15. U.P.R.R. Co. eq. 8s of 1976 .....	M&S1	1991	4,800,000	14,400,000	118,274,720		U	Aaa
16. U.P.R.R. Co. eq. 8s of 1976 .....	J&J1	1991	4,425,000	13,275,000	116,593,750		U	Aaa
17. U.P.R.R. Co. eq. 7 1/2s of 1976 .....	M&S1	1991	6,500,000	19,500,000	124,457,875		U	Aaa
18. U.P.R.R. Co. eq. 7 3/4s of 1977 .....	J&D1	1991	5,500,000	16,500,000	120,836,650	20%	U	Aaa
19. U.P.R.R. Co. eq. 5 1/4s-7.70s of 1977 .....	J&J1	1992	24,000,000	60,000,000	175,236,750	20%	U	Aaa
20. U.P.R.R. Co. eq. 7 1/2s of 1977 .....	M&S1	1992	6,600,000	16,500,000	120,716,000	20%	U	Aaa
21. U.P.R.R. Co. eq. 7 1/2s of 1978 .....	M&S1	1992	9,600,000	24,000,000	130,184,225	20%	U	Aaa
22. U.P.R.R. Co. eq. 7 7/8s of 1978 .....	A&O1	1992	9,600,000	24,000,000	130,471,250	20%	U	Aaa
23. U.P.R.R. Co. eq. 8 1/4s of 1978 .....	F&A1	1993	9,100,000	19,500,000	124,930,000	20%	U	Aaa
24. U.P.R.R. Co. eq. 8 1/4s of 1978 .....	M&S1	1993	9,100,000	19,500,000	124,950,000	20%	U	Aaa
25. U.P.R.R. Co. eq. 8 3/4s of 1978 .....	J&D1	1993	5,600,000	12,000,000	115,750,000	20%	U	Aaa
26. U.P.R.R. Co. eq. 13.15s, No. 1 of 1979 .....	M&N1	1993	8,400,000	15,400,000				Aaa
27. U.P.R.R. Co. eq. 13.15s, No. 3 of 1979 .....	M&N1	1993	8,400,000	15,400,000				Aaa
28. U.P.R.R. Co. eq. 10s, No. 4 of 1979 .....	J&D1	1994	11,600,000	20,300,000				Aaa
29. U.P.R.R. Co. eq. 10 1/8s, No. 5 of 1979 .....	J&J1	1994	13,600,000	23,800,000	130,257,600	20%	U	Aaa
30. U.P.R.R. Co. eq. 11 1/8s, No. 1 of 1980 .....	M&S1	1994	13,600,000	23,800,000	130,913,300	20%	U	Aaa
31. U.P.R.R. Co. eq. 13.15s, No. 2 of 1980 .....	M&N1	1994	42,000,000	72,000,000				Aaa
32. U.P.R.R. Co. eq. 12 1/8s, No. 3 of 1980 .....	J&D1	1995	14,400,000	24,000,000	30,960,000	20%	U	Aaa
33. U.P.R.R. Co. eq. 13s, No. 1 of 1981 .....	F&A1	1995	15,300,000	25,500,000	32,077,500	20%	U	Aaa
34. U.P.R.R. Co. eq. 13 1/8s, No. 2 of 1981 .....	M&S15	1995	15,300,000	25,500,000	32,068,000	20%	U	Aaa
35. U.P.R.R. Co. eq. var. No. 1 of 1985 .....	J&J15	2001	35,055,000	35,055,000				Aaa
36. U.P.R.R. Co. eq. var. No. 1 of 1986 .....	F&A1	2002	133,750,000	33,750,000	142,217,525	20%	U	Aaa
37. U.P.R.R. Co. eq. 8 3/4s, No. 1 of 1987 .....	J&J15	1995	101,200,000	101,200,000	126,494,356	20%	U	Aaa

U See text. U Not a serial issue, due Jan. 15, 1995. U Outstanding as of Feb. 10, 1987. U Privately placed. U Outstg. as of Jan. 21, 1988. U Estimated. U Not a serial issue, maturity Mar. 1, 1990.



## BURLINGTON NORTHERN INC.

## HISTORY

Incorporated in Delaware Mar. 27, 1981 as Burlington Northern Holding Co. On May 14, 1981 acquired Burlington Northern Inc. thru a share-for-share exchange of common and preferred stock and adopted present name. Former Burlington Northern, Inc. changed its name to Burlington Northern Railroad Co.

Burlington Northern Inc. did not assume any of the debt obligations of Burlington Northern Railroad Co.

In May 1982, sold its air freight subsidiary, Burlington Northern Air Freight Inc. to Pittston Co. for \$177 million.

In July 1983, merged two subsidiaries Plum Creek, Inc. and BN Timberlands, Inc. to form a new forest products company, Plum Creek Timber Co.

On Dec. 13, 1983, completed acquisition of El Paso Co. for \$962,000,000 in cash and 7,031,018 shares of adjustable rate series no par value preferred stock.

On Dec. 13, 1985, acquired Southland Royalty Co., for approximately \$730,000,000.

**Interest Sale and Proposed Spin-off:** In 1988, the Company deposited all of its energy and natural resource assets into a new, wholly owned subsidiary, Burlington Resources, Inc. In July 1988, Co. sold approximately 13% of Burlington Resources, Inc. in a public offering of common shares and has announced plans to distribute remaining 87% interest to its stockholders on Dec. 31, 1988 (to stockholders of record Dec. 16, 1988 at rate of 1.74 com. shs. of Burlington Resources Inc. for each Co. com. sh.).

## BUSINESS &amp; PROPERTIES

Burlington Northern Inc. ("the Company"), through operating subsidiaries, is primarily engaged in transportation and natural resource businesses. The Company's principal business activities are a rail carrier system, a natural gas pipeline, the exploration, development, and production of oil, gas, coal, iron ore, taconite and other minerals, the sale of timber and logs primarily from land owned by the Company, the manufacture and sale of forest products, the management and development of real estate owned by the Company and motor carrier operations.

**Segment Information:** Segment information is set forth under Supplementary Data following financial statements, below.

## RAILROAD TRANSPORTATION

Burlington Northern Railroad Company ("Railroad") operates one of the largest railroad systems in the United States in terms of total miles of road. As of Dec. 31, 1987, the system consisted of 25,639 miles of track operated. The principal cities served include Chicago, Minneapolis-St. Paul, Fargo-Moorhead, Billings, Spokane, Seattle, Portland, St. Louis, Kansas City, Des Moines, Omaha, Lincoln, Cheyenne, Denver, Fort Worth, Dallas, Houston, Galveston, Tulsa, Wichita, Springfield (Missouri), Memphis, Birmingham, Mobile and Pensacola.

The contributions of major commodity groups to gross rail freight revenues of Railroad were as follows:

Year Ended Dec. 31,	1987	1986	1985
<b>Agricultural Products:</b>			
Grain .....	12.0%	10.8%	10.7%
Food & kindred products ..	7.5	7.7	7.3
Other .....	2.1	1.9	1.5
	21.6	20.4	19.5
<b>Forest Products:</b>			
Lumber & wood products ..	9.2	8.4	7.7
Pulp, paper & allied products .....	3.7	3.8	3.6
	12.9	12.2	11.3
<b>Mine Products:</b>			
Coal .....	32.7	35.3	39.4
Stone, clay & glass products .....	2.4	2.4	2.5
Metallic ores .....	2.0	2.1	2.2
Non-metallic minerals ..	1.9	1.9	1.9
	39.0	41.7	46.0
<b>Manufactures &amp; Miscellaneous:</b>			
Intermodal .....	11.2	9.9	9.0
Chemicals & allied products .....	5.5	5.1	4.6
Primary metal products ..	1.7	2.5	1.9
Other .....	8.1	8.2	7.7
	26.5	25.7	23.2
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Operating Factors**—Certain significant freight statistics of Railroad were as follows:

Year Ended Dec. 31	1987	1986	1985
Revenue ton miles (in millions) .....	206,281	187,223	184,092
Revenue tons per carload ..	73	71	71
Revenue tons per train .....	2,981	2,939	3,018
Freight train miles (in millions) .....	69	64	61

road's tracks consisted of 112-lb. or heavier rail, including approximately 8,732 track miles of 132-lb. or heavier rail. At the same date, 8,667 miles of track were equipped with centralized traffic control. Additions and replacements to road property were as follows:

Year Ended Dec. 31	1987	1986	1985
Track miles of rail add. & replace:			
New .....	180	581	668
Secondhand .....	192	377	406
Miles of new track & siding incl. above ..	7	15	47
Track miles of continuous welded rail laid incl. above in rail add. & replace. ....	351	722	1,028
Track miles of new centralized traffic control signaling systems ..	132	139	202
Track miles surfaced or rebalanced .....	7,879	9,631	14,157
Ties inserted (in thousands) .....	1,485	2,223	3,858

**Equipment**—Railroad owned or leased the following units of railroad rolling stock at Dec. 31, 1987:

Type of Equipment	Number of Units		
	Owned	Leased	Total
<b>Locomotives:</b>			
Freight .....	642	1,233	1,875
Passenger .....	.....	25	25
Multi-purpose .....	244	.....	244
Switching .....	209	.....	209
<b>Total locomotives .....</b>	<b>1,095</b>	<b>1,258</b>	<b>2,353</b>
<b>Auxiliary units .....</b>	<b>2</b>	<b>.....</b>	<b>2</b>
<b>Total locom. &amp; aux. units .....</b>	<b>1,097</b>	<b>1,258</b>	<b>2,355</b>
<b>Freight cars:</b>			
Box-general purpose .....	2,530	3,331	5,861
Box-specially equipped ..	4,769	410	5,179
Gondola .....	5,777	314	6,091
Hopper-open top .....	8,360	1,440	9,800
Hopper-covered .....	18,299	1,681	19,980
Refrigerator .....	3,149	1,195	4,344
Flat .....	3,881	18	3,899
Caboose .....	731	.....	731
Other .....	1,313	5	1,318
<b>Total freight cars .....</b>	<b>48,809</b>	<b>8,394</b>	<b>57,203</b>
<b>Commuter passenger cars ..</b>	<b>141</b>	<b>.....</b>	<b>141</b>

The average age (in years) of locomotives and freight cars was 13.9 and 16.3, respectively, at Dec. 31, 1987, compared to 13.9 and 15.8, respectively, at Dec. 31, 1986.

The average percent of the Railroad's locomotives and freight cars awaiting repairs during 1987 was 6.7 and 3.2, respectively, compared to 5.2 and 3.5, respectively, in 1986.

## OIL AND GAS

The Company's oil and gas operations include oil and gas exploration, production and marketing activities, intrastate natural gas and crude oil pipeline systems and the extraction and marketing of natural gas liquids ("NGL").

Meridian Oil Inc. ("Meridian") provides exploration, development, production and management services to all of the Company's oil and gas production properties. Meridian has oil and gas activity in substantially all of the major producing areas of the continental United States. Virtually all oil and gas production is from property located in the United States. Data presented for Meridian reflects all of the Company's oil and gas production activities, intrastate natural gas and crude oil pipeline systems and the extraction and marketing of NGL, excluding Southland Royalty Company ("Southland") in 1985.

Meridian's capital expenditures were as follows:

Year Ended Dec. 31,	1987	1986	1985
			(In thousands)
Oil & gas activities .....	\$94,520	\$96,031	\$302,828
NGL, Gas & Oil Pipelines ..	1,856	12,594	20,697
Administrative .....	6,244	7,438	11,321
<b>Total .....</b>	<b>\$102,620</b>	<b>\$116,063</b>	<b>\$334,846</b>

Capital expenditures for oil and gas activities include exploration costs expensed under the successful efforts method of accounting and capitalized interest. Drilling activity in 1987 was principally in the San Juan Basin, the Williston Basin, the Permian Basin, the Gulf Coast and the shallower portion of the Anadarko Basin. The 1987 program resulted in net reserve additions of 3.3 million barrels ("MMBbls") of oil and 68 billion cubic feet ("BCF") of gas and also converted net reserves of 3.5 MMBbls and 59 BCF from proved undeveloped to proved developed. In addition,

**Producing Wells, Developed and Undeveloped Acreage**—Working interests in productive wells, developed and undeveloped acreage at Dec. 31, 1987 were as follows:

Productive Wells				
Gas		Oil		
Gross	Net	Gross	Net	
10,089	4,950	12,624	2,233	
Developed Acres		Undeveloped Acres		
Gross	Net	Gross	Net	
4,195,000	2,208,000	3,812,000	2,158,000	
<b>Drilling Activity</b> —The following table sets forth Meridian's net productive and dry wells completed:				
		1987	1986	1985
<b>Productive wells</b>				
Exploratory .....		14.4	13.3	19.4
Development .....		61.6	86.8	225.1
		<u>76.0</u>	<u>100.1</u>	<u>244.5</u>
<b>Dry wells</b>				
Exploratory .....		13.1	19.1	37.4
Development .....		1.4	12.2	23.2
		<u>14.5</u>	<u>31.3</u>	<u>60.6</u>
Total net wells .....		90.5	131.4	305.1
As of Dec. 31, 1987, 68 gross wells, representing approximately 27.3 net wells, were being drilled.				

As of Dec. 31, 1987, 68 gross wells, representing approximately 27.3 net wells, were being drilled.

**Oil and Gas Production and Sales**—Refer to Supplementary Data following financial statements, below, for oil and gas production. Approximately 29% of the 1987 gas production was sold to El Paso Natural Gas Co. ("EPNG") and an additional 28% was transported to direct sale customers through EPNG's pipeline facilities. Meridian will continue to sell or transport a substantial portion of its gas production to or through EPNG's pipeline but expects to continue to diversify into markets on other pipeline systems.

Meridian's average oil and gas sales prices, production costs (lifting costs) and depreciation, depletion and amortization ("DD&A") rates were as follows:

Year Ended Dec. 31,	1987	1986	1985
<b>Average sales prices:</b>			
Oil per barrel .....	\$17.20	\$14.06	\$25.11
Gas per MCF .....	1.44	1.74	2.51
<b>Average production costs per equivalent MCF .....</b>	<b>0.57</b>	<b>0.57</b>	<b>0.57</b>
<b>DD&amp;A rates per equivalent MCF .....</b>	<b>0.61</b>	<b>0.75</b>	<b>0.75</b>

As used herein, "equivalent MCF" refers to combined oil and gas production with oil converted to gas on the basis of 6 MCF per barrel of oil.

**Proved Reserves**—Refer to Financial Statements and Supplementary Data for volumetric data pertaining to proved oil and gas reserves. For reserves reported to other agencies, refer to Natural Gas Operations, below.

**Intrastate Pipelines and NGL Marketing**—Meridian owns and operates three intrastate natural gas pipeline systems, two in west Texas and another in Alabama. Such systems total approximately 800 miles. Meridian is also engaged in the extraction and marketing of NGL.

Meridian sells natural gas from its intrastate systems to industrial customers, electric and gas utilities, and other intrastate and interstate pipeline companies. NGL are sold to a variety of wholesale and industrial customers. Approximately 21 percent of Meridian's 1987 NGL sales were to El Paso Products Co., a nonaffiliated entity, pursuant to a contract expiring in 1993.

Meridian's natural gas throughput and NGL sales and extraction were as follows:

Year Ended Dec. 31	1987	1986	1985
<b>Natural Gas Throughput (BCF):</b>			
Sales .....	62	57	68
Transportation .....	19	12	19
<b>Total .....</b>	<b>81</b>	<b>69</b>	<b>87</b>
<b>NGL (MMBbls):</b>			
Sales .....	20.6	17.1	21.0
<b>Extraction:</b>			
Meridian owned plants .....	3.8	4.8	5.5
EPNG owned plants .....	15.7	10.0	13.5
<b>Total .....</b>	<b>19.5</b>	<b>14.8</b>	<b>19.0</b>

NGL sales volumes have been greater than extraction volumes due to trading activities conducted by Meridian.

Meridian purchases the majority of its natural gas supplies from nonaffiliated independent producers. Meridian's weighted average cost of purchased gas was \$1.52 per MCF in 1987.

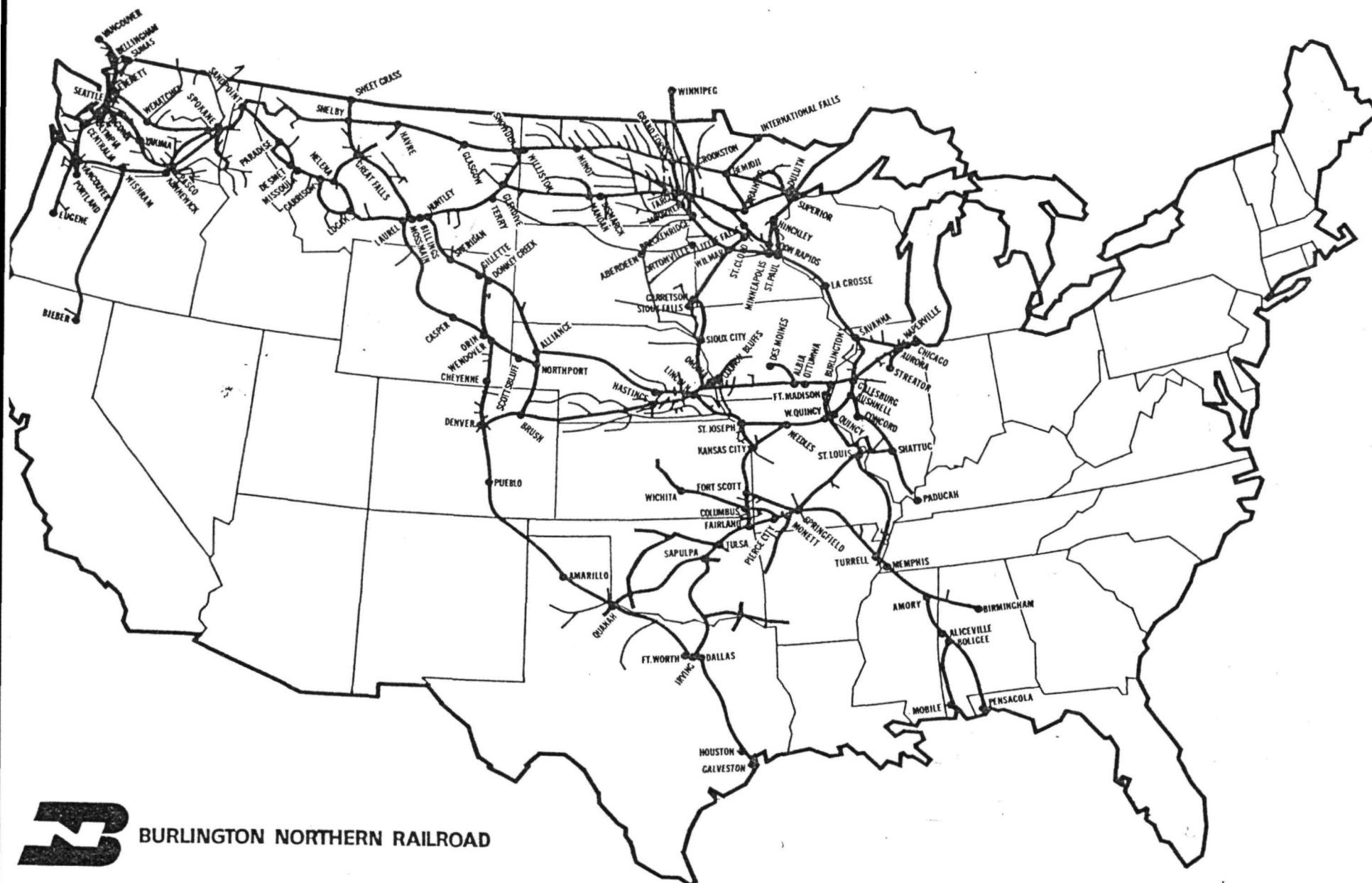
Meridian's intrastate pipeline activities are regulated by the Texas Railroad Commission and the Alabama State Oil and Gas Board.

## NATURAL GAS OPERATIONS

EPNG owns and operates a 22,000 mile interstate natural gas pipeline and gathering system in the southwestern and western United States.

## Natural Gas Throughput

The following table sets forth the 1987



BURLINGTON NORTHERN RAILROAD

Pacific Gas and Electric Company	66	129	195
Other California	217	265	265
Total California	217	681	898
East-of-California	72	109	181
Total	289	790	1,079

Other California throughput represents the transportation of other suppliers' spot market gas sales to end-users in California other than Southern California Gas Company and Pacific Gas and Electric Co.

EPNG's total throughput increased 23 percent to 1,079 BCF in 1987, as compared to 879 BCF in 1986. The principal reason for the increase in throughput is significantly higher gas usage for electric generation due to lower availability of hydroelectric power and generally higher demand for electricity.

Sales volumes decreased 28% to 289 BCF in 1987, as compared to 401 BCF in 1986, primarily because EPNG's customers bought more gas on the spot market. The decrease in sales was more than offset by higher transportation volumes, which increased to 65 percent to 790 BCF in 1987, as compared to 478 BCF in 1986, as a result of greater activity in the spot market, increased gas consumption, primarily for electric generation, and a regulatory environment which encouraged increased utilization of pipeline transportation service.

Through its deliveries to Southern California Gas Company, Pacific Gas and Electric Company and other California customers, EPNG supplied approximately 50% of all natural gas consumed in California in 1987, which amounts to 83 percent of EPNG's total deliveries.

**Natural Gas Supplies**—EPNG purchases the majority of its natural gas supplies from unaffiliated independent producers and other pipelines pursuant to gas purchase contracts with producers in the Permian Basin of west Texas and southeastern New Mexico, the Anadarko Basin of western Oklahoma and the San Juan Basin of northwestern New Mexico. In 1987, EPNG obtained 16 percent of its natural gas supplies from affiliates. EPNG's total weighted average cost of purchased gas at the wellhead was \$1.84 per MCF in 1987.

Since 1985, EPNG's traditional sales customers have increased their purchases of natural gas from other sources. As a result, the quantities of natural gas available for purchase by EPNG from gas reserves connected to its interstate pipeline system continue to exceed the market's demand for that gas from EPNG. During 1987, EPNG continued to purchase gas for resale to its customers from its suppliers on a "least cost" basis to fulfill its duties under the Natural Gas Act of 1938 ("NGA") to offer gas to the market at the lowest reasonable cost consistent with market conditions and with maintaining an adequate supply.

As a result of these circumstances, EPNG has received a number of "take-or-pay" or "prepayment" claims from various producer suppliers. Presently, unresolved take-or-pay claims, including claims in litigation, total approximately \$598 million. Based on EPNG's 1987 sales and gas supply levels, EPNG is exposed to large additional take-or-pay claims for 1987. EPNG is working with its producer suppliers to resolve these claims. To the extent the resolutions of these claims involve prepayments, EPNG is entitled under Federal Energy Regulatory Commission ("FERC") regulations to recover the carrying cost of such payments in its rates until the prepayments are recouped from the producers. The FERC's recent Order No. 500 reaffirms as a statement of FERC policy that to the extent claims are resolved by a negotiated termination ("buy-out") or modification ("buy-down") of a producer's contract, pipelines are entitled to recover their prudently incurred buy-out and buy-down costs in the sales commodity component of their rates. However, market conditions could affect the ability of a pipeline to recover such costs in its sales commodity rates. As an alternative, Order No. 500 offers a pipeline the option of absorbing at least 25 percent of such costs, collecting an equal percentage in the demand component of their rates, and recovering any remainder of such buy-out and buy-down costs in its sales commodity and transportation rates. EPNG has petitioned for judicial review of Order No. 500 as unlawful to the extent its application would deny pipelines the reasonable opportunity to recover in rates all prudently incurred costs. (See also Rate Matters.)

Various producer suppliers have brought actions against EPNG in federal and state courts in New Mexico, Texas and Oklahoma regarding the price they have been paid for natural gas contracted to EPNG. EPNG believes that it has complied with its contract obligations as affected by governmental orders and is vigorously defending its actions. Under existing FERC rules, EPNG has the right to recover, in sales commodity rates, additional gas costs which it might be forced to incur from any adverse decisions in these cases or other resolution of these claims. However, market conditions could affect EPNG's ability to recover such costs.

**System Gas Reserves and Availability**—The following table sets forth the total reserves, estimated by EPNG, dedicated to the interstate pipeline system as of Dec. 31, 1987:

Summary of Gas Reserves (Volumes in BCF):		
Permian System	2,780	
Anadarko System	1,581	
San Juan System	8,160	

Other reserves ..... 199

Meridian Mir Co.

EPNG's reserves include 2,260 BCF of net interest reserves attributable to affiliates and 267 BCF of working interest reserves.

Miller and Lents, Ltd., independent oil and gas consultants, has made a study, as of Dec. 31, 1987, of the availability of gas for such systems. The summary report of such study, dated Jan. 8, 1988, states, in part, the following:

"The reserve life index, based on proved developed and undeveloped gas reserves of 12,728 billion cubic feet ("BCF") as of Dec. 31, 1987, is equivalent to approximately 18.3 years' supply based on estimated sales and pipeline use of 694 BCF during the twelve months' period ending Dec. 31, 1987.

The following table sets forth, for the year 1987, the average daily volume of gas received by EPNG's interstate pipeline system and, for the period 1988-1992, the estimated average daily availability of gas from proved developed gas reserves dedicated to such system on Dec. 31, 1987. With respect to the 1988-1992 period, "availability" refers to that quantity of gas (before giving effect to EPNG's fuel, shrinkage, and losses) which can be produced from current proved developed reserves under existing contracts and agreements, using presently installed equipment under existing economic and operating conditions.

Availability of Gas for the Period 1988 through 1992 EPNG Interstate Pipeline System (Volumes in MMCF):

		Annual Average Day				
		Actual Prod.		Estimated		
1987	1988	1989	1990	1991	1992	
1,900	2,432	2,201	1,952	1,756	1,541	

"The foregoing estimate of availability of gas for 1988-1992 does not give effect to the development of the presently proved undeveloped reserves dedicated to EPNG's interstate pipeline system nor to the discovery or acquisition of additional reserves after Dec. 31, 1987. The efforts of EPNG in the future will be to align its gas supplies with its market demand.

"The deliveries of gas by EPNG's interstate system are subject to various factors beyond its control, including market conditions, regulations and competition for supplies, which may affect EPNG's delivery requirements."

**Regulation**—EPNG's interstate gas pipeline activities are regulated by the FERC pursuant to the provisions of the NGA and the Natural Gas Policy Act of 1978 ("NGPA").

#### FOREST PRODUCTS

Plum Creek Timber Company, Inc. ("Plum Creek") manages approximately 1.5 million acres of timberland in Washington, Oregon, Idaho and Montana. Timber sold from these lands in the years 1987, 1986 and 1985 was 670, 669 and 603 million board feet, respectively. The increase in harvest over the past three years reflects Plum Creek's plan to harvest overmature timber and reforest its land with superior growing stock.

Plum Creek has softwood manufacturing facilities in Montana and Washington. Annual rated capacity for 1987 was 390 million board feet of lumber, 250 million square feet of plywood (3/4" basis) and 80 million square feet of fiberboard (3/4" basis). Sales volume for 1987 was 375 million board feet of lumber, 252 million square feet of plywood and 83 million square feet of fiberboard. In 1987, approximately 58% of Plum Creek's mill log requirements were obtained from Company lands.

#### OTHER ACTIVITIES

Meridian Minerals Company manages coal reserves estimated at 14,521, 14,539 and 14,552 million tons for the years 1987, 1986 and 1985, respectively. The average royalties derived from the development of such reserves for such years were \$0.42, \$0.24 and \$0.22 per ton, respectively.

Burlington Northern Motor Carriers Inc. ("BNMC") operates five dry van truckload carriers in the United States. BNMC operated 1,892 tractors and 3,354 trailers as of Dec. 31, 1987. With 1987 revenues of \$195 million, BNMC has become one of the largest U.S. dry van truckload carriers since its creation through an acquisition program in 1985.

Glacier Park Co. ("GPC") manages the Co.'s real estate assets, extending from the Pacific Northwest to the southeastern United States. Revenues are derived primarily from leases, sales and development joint ventures. As of Jan. 1, 1987, GPC assumed management responsibility for real estate activities which had previously been reported as part of Railroad operations. GPC manages approximately 30,000 leases, most of which are short-term ground rentals. Real estate development focuses on lower risk land development activities such as land-use planning, zoning and permitting, leading to the creation of joint ventures with local developers. GPC also manages approximately 1.2 million acres of agricultural land in the western United States and the Province of Alberta.

#### PRINCIPAL SUBSIDIARIES

Burlington Northern R.R. Co.	
Burlington Northern Motor Carriers Inc.	
Burlington Resources, Inc. (87%)	
El Paso Natural Gas Co.	
Meridian Oil Inc.	
Plum Creek Timber Co., Inc.	
Glacier Park Co.	

#### LETTER TO SHAREHOLDERS

The following is the letter to shareholders by Richard M. Bressler, Chairman of the Board, President and Chief Executive Officer of Burlington Northern Inc. as it appeared in the Company's 1987 Form 10-K Annual Report.

To Our Stockholders:

The 1987 financial and operating performance of Burlington Northern Inc. improved significantly. Earnings per share were \$4.93 compared to the pro forma \$3.46 recorded in 1986. Free cash flow (funds provided by operations less capital expenditures) was \$691 million in 1987 versus \$644 million the previous year. In October, the Board of Directors increased the annual common dividend by 10% to \$2.20 per share.

Burlington Northern Railroad achieved record traffic volumes in 1987 and contributed 57% of BNI's consolidated operating income. All major commodity groups showed gains, with the agricultural, food and forest products groups each recording increases of greater than 15% over 1986 revenue-ton-miles. The Railroad's continuing efforts to reduce costs resulted in better profit margins in 1987. The attendant productivity gains have enabled the company to compete effectively with other carriers by providing improved service and savings to our shippers.

El Paso Natural Gas Company's transmission levels improved by 23% in 1987 due to the combination of lower hydroelectric power competition and higher oil prices. The pipeline contributed 28% of consolidated operating income. El Paso's efficient transmission facilities and ready access to relatively low priced and abundant natural gas supplies make it a strong competitor in the western and southwestern U.S. gas markets.

Meridian Oil's exploration and production operations provided 9% of consolidated operating income in 1987 as energy prices strengthened and production volumes remained steady. Meridian's extensive and low cost hydrocarbon reserves are expected to provide substantially higher contributions to operating income in future years.

Plum Creek Timber Company had an excellent year as low interest rates and a weaker U.S. dollar created strong domestic and foreign demand for logs and forest products. Meridian Minerals acquired three additional aggregate quarries in 1987 and currently has the capacity to supply over 4 million tons annually of railroad ballast and rock products.

In November we were saddened by the death of Mr. Billy B. Ross, the president of Meridian Oil Company. He was an accomplished executive and a valued friend.

Richard M. Bressler

#### MANAGEMENT

##### Officers

R.M. Bressler, Chmn. of The Bd., Pres. & Chief Exec. Off.  
Gerald Grinstein, Vice-Chmn. of the Bd.  
T.H. O'Leary, Vice-Chmn. of the Bd.  
T.H. Petty, Vice-Chmn. of the Bd.  
C.T. Bayley, Senior Vice-Pres. — Corp. Affairs  
J.W. Becker, Senior Vice-Pres. — Law  
A.R. Boyce, Senior Vice-Pres. — Human Resources  
Luino Dell'Oso, Jr., Senior Vice-Pres. — Finance & Planning  
Leslie S. Leland, Corp. Sec.  
G.E. Howison, Vice-Pres. & Treas.

##### Directors

(Showing Principal Corporate Affiliations)

Zane E. Barnes, Chmn. of Bd., Pres. & Chief Exec. Off. of Southwestern Bell Corp. Dir., Reading & Bates Corp., Center Bancorporation, Center Bank N.A., General American Life Insurance Co., H&R Block, Inc., INTERCO, Inc.

Richard M. Bressler, Chmn. of Bd., Pres. & Chief Exec. Off. of Co.; Dir., General Mills Inc., Rockwell International Corp., Baker Hughes Inc., H.F. Ahmanson & Co.

John V. Byrne, Pres., Oregon State University. Dir. Benjamin Franklin Savings & Loan.

R.P. Cooley, Chmn. & Chief Exec. Off., Seafirst Corp. Dir., Allegis Corp., Bank America Corp./Bank of America NT&SA.

Daniel P. Davison, Chmn. of Bd. & Chief Exec. Off. of United States Trust Co. of New York; Dir., Northwestern States Portland Cement Co., Discount Corp., Todd Shipyards, Inc., The Atlantic Companies.

Mary Garst, Cattle Manager of The Garst Co.; Dir., Northwestern Bell Telephone Co., Navistar International Corp., Home State Bank, Audubon State Bank.

Gerald Grinstein, Vice-Chmn. of Bd. of Co.; Dir., General Telephone Co. of California, Delta Air Lines, Inc. and Seafirst Corp.

Charles M. Harper, Chmn. & Chief Exec. Off., ConAgra, Inc. Dir., Valmont Industries, Inc., Norwest Corp., Peter Kiewit & Sons, Inc.

Pemberton Hutchinson, Pres. & Chief Oper. Off., Westmoreland Coal Co.; Dir., Westmoreland Coal Co., Teleflex, Inc., Mellon Bank East.

Ben F. Love, Chmn. & Chief Exec. Off., Texas Commerce Bancshares, Inc. Dir., Cox Enterprises Inc., Baker Hughes Inc., Proler International Corp., Texas Commerce Bancshares, Inc., Texas Commerce Bank-Houston, Texas Commerce Bank-Austin, Chemical New York Corp.



Thomas H. O'Leary, Vice-Chmn. of Bd. of Co.; Dir., INTERCO, Inc., The Kroger Co., Rainier Bancorporation.

Travis H. Petty Vice-Chmn. of Bd. of Co.; Chmn. of Bd. & Pres., The El Paso Co.; Dir., Texas Commerce Bancshares, Inc., and Texas Commerce Bank — El Paso.

Gerald C. Ryan, Pres. of Ryan Potato Co.; Dir., First Bank System, Inc.

Arnold R. Weber, Pres., Northwestern University, Dir., PepsiCo, Inc., Super Valu Stores, Inc. and Inland Steel Co.

Auditors: Coopers & Lybrand.

Annual Meeting: In April.

Director Meetings: Quarterly.

Shareholder Relations: Leslie S. Leland, Corp. Sec. Tel: (206) 467-3838.

No. of Stockholders: Dec. 31, 1987, common, 37,126.

No. of Employees: Dec. 31, 1987, 42,300.

Executive Office: 999 3rd Ave., Seattle, W.

98104-4097. Tel: (206) 467-3838.

## INCOME ACCOUNTS

### CONSOLIDATED INCOME ACCOUNT, YEARS ENDED DEC. 31

(in thousands of dollars)

	1987	1986	1985	1984
Revenues	6,620,857	6,941,413	8,650,927	9,156,333
Costs & expenses	5,570,378	6,113,024	7,404,905	7,781,848
Special Charge	.....	957,092	.....	.....
Operating income (loss)	1,050,479	(128,703)	1,246,022	1,374,477
Interest expense	372,286	388,837	312,245	309,577
Other income (expense), net	(22,343)	62,996	106,419	(17,720)
Inc. (loss) bef. inc. taxes	655,850	(454,544)	1,040,196	1,047,177
Provision for income taxes	286,597	70,100	443,708	477,977
Inc. (loss) bef. cum. effect of acctg. change	369,253	(524,644)	596,488	569,200
Inc. (loss) bef. cum. effect of acctg. change	.....	(335,841)	.....	.....
Net income (loss)	369,253	(860,485)	596,488	569,200
Div. requirements on pfd. stock	3,591	33,028	65,637	76,957
Earnings (loss) for com. stock	365,662	(893,513)	530,851	492,243
Consolidated Statement of Retained Earnings:				
Retained earnings, beg. of yr.	2,725,678	3,714,484	3,317,925	2,904,800
Net income (loss)	369,253	(860,485)	596,488	569,200
Preferred cash divs. declared:				
\$10 par value, cumulative	(923)	(693)	(1,302)	(1,107)
No par value, \$9 cumulative	.....	(689)	(4,820)	(4,590)
No par value, \$2.125 cumulative	.....	(639)	(3,408)	(2,830)
Adjustable rate series, no par value	.....	(20,847)	(42,140)	(38,080)
Preferred stock of subsidiary	(2,685)	(4,249)	(25,320)	(29,140)
Common cash dividends declared	(151,558)	(95,944)	(106,552)	(80,950)
Acq. of pfd. stock	39	(4,964)	(16,536)	86
Other	(186)	(296)	149	(230)
Retained earnings, end of yr.	2,939,618	2,725,678	3,714,484	3,317,925
Earnings (loss) per common share	\$4.93	\$(12.07)	\$7.19	\$6.60

1986: Cumulative effect of change in railroad depreciation method of accounting, net of deferred income tax of \$314,159,000. \$(7.53) before cumulative effect of change in railroad depreciation method of accounting.

### Consolidated Statement of Changes in Financial Position, years ended Dec. 31 (in \$000s):

	1987	1986	1985
Funds Provided by Operations:			
Net income (loss)	369,253	(860,485)	596,488
Items Not Affecting Cash:			
Depreciation, depletion and amortization	533,998	596,346	475,620
Deferred income taxes	213,092	51,466	404,660
Unsuccessful exploration costs	47,177	51,909	118,800
Other	11,821	103,581	(8,810)
Special charge	.....	957,092	.....
Change in railroad depreciation method of accounting	.....	335,841	.....
Funds provided from operations	1,175,341	1,235,750	1,586,868
Other Funds Provided (Used):			
Salvage, property dispositions	29,061	148,498	47,470
Working capital changes:			
Accounts receivable	(113,244)	180,146	44,370
Recoverable excess gas costs	(208,699)	(103,922)	48,270
Material, supplies & inventories	8,547	65,874	65,610
Other current assets	(6,636)	(518)	28,900
Accounts and wages payable	127,660	(53,827)	(246,070)
Accrued interest	6,658	29,495	24,800
Taxes payable	55,015	(19,770)	(33,980)
Other current liabilities	(7,101)	(67,924)	34,710
Commercial paper of subsidiary	226,150	.....	.....
Additions to properties	(483,902)	(591,487)	(1,131,360)
Take-or-pay buy-outs, buy-downs & prepayments	(115,150)	.....	.....
Other	(97,954)	(199,858)	(1,017,230)
Funds provided (used) before financing activities	595,746	622,457	(547,580)
Financing Activities:			
Proceeds from long-term financing	450,000	875,000	854,170
Reductions in long-term debt and preferred stock	(923,733)	(1,342,180)	(350,300)
Dividends paid	(151,496)	(152,146)	(162,040)
Common stock issued	18,529	5,431	7,750
Treasury stock transactions, net	15,994	5,682	7,810
Total financing activities	(590,706)	(608,213)	357,420
Increase (decrease) in cash and short-term investments	5,040	14,244	(190,150)
Cash and Short-term Investments:			
Beginning of year	78,381	64,137	254,280
End of Year	83,421	78,381	64,130

1986 amount includes \$122,000,000 for coal rate litigation reserves, including interest. The 1985 amount includes approximately \$730,000,000 for the acquisition of Southland.

## BALANCE SHEETS

### CONSOLIDATED BALANCE SHEET, AS OF DEC. 31

(in thousands of dollars)

	1987	1986	1985	1984
ASSETS				
Cash and short-term investments	83,421	78,381	64,137	254,280
Accounts receivable	1,051,119	937,875	1,118,021	1,162,300
Recoverable excess gas costs	367,084	158,385	54,463	102,700
Material, supplies and inventories	252,035	260,582	326,456	392,000
Other current assets	49,878	43,242	42,724	71,600
Total current assets	1,803,537	1,478,465	1,605,801	1,983,100
Properties:				
Railroad	7,958,638	7,977,406	8,582,279	8,337,600
Natural Gas Operations	1,414,895	1,410,650	1,556,829	1,652,500
Oil and Gas	2,628,905	2,586,150	2,159,128	1,881,800
Other	525,246	338,741	321,087	209,200
Total properties	12,527,684	12,312,947	12,619,323	12,081,300
Accumulated depreciation, depletion and amortization	3,923,292	3,612,376	2,922,925	3,053,500

# BALANCE SHEETS (Cont'd):

	1987	1986	1985	1984
Other assets	540,337	471,920	1,023,842	276,065
Total	10,948,268	10,650,956	12,256,041	11,287,085
LIABILITIES				
Accounts and wages payable	1,245,474	1,117,814	1,171,641	1,417,717
Accrued interest	125,095	118,437	.....	.....
Taxes payable	180,182	125,167	144,937	178,926
Other current liabilities	94,444	101,545	258,411	198,889
Current portion of deferred income taxes	134,309	50,047	7,220	49,480
Commercial paper of subsidiary	226,150	.....	.....	.....
Current portion of long-term debt	197,243	309,349	246,456	152,936
Total current liabilities	2,202,897	1,822,359	1,828,665	1,997,948
Long-term debt	3,001,058	3,393,812	3,117,983	2,453,926
Other liabilities and deferred credits	405,070	397,378	240,646	326,331
Deferred income taxes	1,499,697	1,441,347	2,037,890	1,711,844
Redeemable preferred stock:				
\$10 par value	15,799	17,201	18,464	19,665
\$9 Series, no par value	.....	.....	40,800	51,000
\$2.125 Series, no par value	.....	.....	31,187	33,423
Adjustable Rate Series, no par value	.....	.....	317,474	336,762
Total redeemable preferred stock	15,799	17,201	407,925	440,850
Redeemable preferred stock of subsidiary	40,970	44,545	110,925	256,341
Common stock	899,743	881,214	875,783	867,992
Retained earnings	2,939,618	2,725,678	3,714,484	3,317,925
Total	3,839,361	3,606,892	4,590,267	4,185,917
Cost of treasury stock	56,584	72,578	78,260	86,072
Common stockholders' equity	3,782,777	3,534,314	4,512,007	4,099,845
Total	10,948,268	10,650,956	12,256,041	11,287,085
Net current assets (liabilities)	(399,360)	(343,894)	(222,864)	(14,766)

No par shares: 1987, 75,701,292; 1986, 75,622,872; 1985, 75,557,266; 1984, 75,386,844.  
 Number of shares: 1987, 1,239,206; 1986, 1,838,567; 1985, 1,977,276; 1984, 2,186,915.

## ACCOUNTING POLICIES

(As Taken From Annual Report of Company)

### Principles of Consolidation

The consolidated financial statements include the accounts of Burlington Northern Inc. and its majority-owned subsidiaries (the "Company"). Glacier Park Company is accounted for by the equity method in 1986 and 1985. Southland Royalty Company ("Southland") is accounted for by the equity method in 1985. All significant intercompany transactions are accounted for at market prices and have been eliminated.

### Recoverable Excess Gas Costs

The differences between actual purchased gas costs and the averages of these costs included in currently effective gas sales commodity rates of El Paso Natural Gas Company ("EPNG") are deferred and amortized to income in the period in which they are recovered through surcharges in gas sales commodity rates permitted by the Federal Energy Regulatory Commission ("FERC"). The surcharges are adjusted at six-month intervals by filings with the FERC.

The balance in Recoverable Excess Gas Costs at Dec. 31, 1987, includes the unrecovered portion of the natural gas liquids settlement of approximately \$210 million.

### Property

In 1986, the Company adopted a method of depreciation for the majority of its railroad transportation properties that closely approximates a unit method versus the composite method of depreciation previously used. Burlington Northern Railroad Company ("Railroad") continues to depreciate mainline track using a units-of-production method. All other railroad transportation properties and railroad equipment are depreciated on a straight-line basis over estimated useful lives. A periodic review of rates and accumulated depreciation is performed and appropriate adjustments are recorded. Significant premature railroad retirements are recorded as gains or losses at the time of their occurrence. These include major casualty losses, abandonments, sales and obsolete assets. Natural gas transmission properties are depreciated on a composite straight-line basis over estimated useful lives. The costs of properties retired or sold is eliminated from the asset and related accumulated depreciation, depletion and amortization accounts. No gain or loss is recognized upon retirement of properties depreciated under the composite method except in extraordinary circumstances. Gains or losses from disposal of all other properties are recognized currently. Expenditures for maintenance, repairs and minor renewals necessary to maintain properties in operating condition are expensed as incurred. Major replacements and renewals are capitalized. All properties are stated at cost.

### Oil and Gas

The Company accounts for its oil and gas properties using the successful efforts method. Under this method, all development costs are capitalized and amortized on a units-of-production basis over the life of remaining proved developed reserves. Costs of drilling exploratory wells are initially capitalized, but charged to expense if and when a well is determined to be unsuccessful. In addition, the Company limits the total amount of unamortized capitalized costs to the present value of future net revenues, based on current prices and costs, discounted at 4 percent.

### Material, Supplies and Inventories

Material and supplies, which account for approximately 73 percent of material, supplies, and inventories, are valued at the lower of average cost or market. Inventories held for sale, other than gas in storage, are valued at the lower of "first-in, first-out" cost or market. Gas in storage inventories are valued on the "last-in, first-out" basis.

### Forest Products

Property taxes and costs of maintaining forests are charged to expense as incurred. Reforestation costs are capitalized and included as a cost of timber when harvested.

### Income Taxes

Income taxes are provided based on earnings reported for financial statement purposes. The provision for income taxes includes deferred taxes resulting from items reported in different periods for tax and financial statement purposes. Investment tax credits are accounted for under the "flow-through" method.

### Earnings per Common Share

Earnings per common share are based on the weighted average number of common shares outstanding during each year. The dilutive effect of stock options outstanding and convertible subordinated notes is not significant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(As Taken From Annual Report of Company)

### 1. Segment Information

The Company conducts business in several industry segments.

### 2. Debt and Lease Obligations

Debt outstanding is as follows (in thousands):

	1987	1986
Burlington Northern Inc.:		
Notes Payable, 14 3/4% due 1992	\$100,000	\$100,000
Debentures, 11 5/8% due 1996 to 2015	250,000	250,000
Notes Payable, 9 5/8% due 1996	300,000	300,000
Debentures, 9% due 1997 to 2016	200,000	200,000
Commercial Paper	242,678	429,680
Burlington Northern Railroad Company:		
General Mortgage Bonds, 2 3/8% to 3 1/8% due 1990 to 2010	110,000	110,000
Prior Lien Mortgage Bonds, 4% due 1997	69,921	69,921
General Lien Mortgage Bonds, 3% due 2047	47,777	47,777
First and Refunding Mortgage Bonds, 3% due 1990	13,937	14,437
Consolidated Mortgage Bonds, 8 1/2% to 12 1/8% due 1994 to 2006	690,472	528,234
First Mortgage Bonds, Series A, 4% due 1997	35,489	37,489
Income Debentures, Series A, 5% due 2006	23,977	24,075
Mortgage Notes, 6 3/4% due serially to 1992	3,750	3,900
Equipment & Other Obligations, 6% to 14 1/4% due serially to 2018	385,336	486,944
El Paso Natural Gas Company:		
Debentures, 6.75% to 16.7% due 1988 to 2012	486,182	552,654
Senior Notes Payable to Insurance Companies, 17 1/4% due 1987	.....	79,000
Notes Payable, 15 3/4% due 1992	.....	100,000
Other:		
Convertible Subordinated Notes, 13% due 1992	.....	50,000
Senior Notes Payable to Insurance Companies, 11 3/4% due 1988 to 1992	31,250	37,500

### Notes Payable to

Insurance Companies, 8.95% to 12.25% due 1988 to 1993	158,807	179,038
Other, 7% to 15% due 1988 to 1998	5,128	7,189
Capital Lease Obligations	101,749	117,501
Unamortized Discount	(58,152)	(22,178)
Total	3,198,301	3,703,161
Less: Current Portion of lg.-tm. debt	197,243	309,349
Long-term Debt	\$3,001,058	\$3,393,812

At Dec. 31, 1987, the Company had lending commitments from banks aggregating \$1.65 billion of which Burlington Northern Inc. ("BNI") had \$1.35 billion and EPNG the remainder.

BNI and a group of banks have a \$900 million Revolving Credit Agreement which expires March 31, 1995. The commitment to make advances reduces by \$40 million each quarter commencing June 30, 1991. Annual fees are 1/4 of 1 percent of the unused portion of the commitment. Another group of banks is committed to a \$450 million Facility Agreement with BNI which expires May 6, 1991. Annual fees are 1/10 of 1 percent of the commitment. The aggregate of borrowings under these agreements and BNI commercial paper outstanding cannot exceed \$1.35 billion. At BNI's option, interest on borrowings is based on either prime rates, domestic money market rates, or Eurodollar rates. Under the covenants of these agreements, retained earnings of \$459 million are available for payment of common dividends. Unused commitments under these agreements are available to cover certain debt due within one year. Therefore, BNI commercial paper is classified as long-term debt.

EPNG and a group of banks have a \$300 million Credit Agreement which expires on Aug. 27, 1990. Annual fees ranging from 1/8 of 1 percent to 3/4 of 1 percent of the commitment are payable under the terms of the agreement. At EPNG's option, interest on borrowings is based on prime rates, domestic money market rates or Eurodollar rates. The aggregate of borrowing under this agreement and EPNG commercial paper outstanding cannot exceed \$300 million. EPNG commercial paper is classified as Commercial Paper of Subsidiary on the accompanying consolidated balance sheet.

The Company has Interest Rate Exchange Agreements for the purpose of converting the effective interest rate on floating rate obligations to fixed interest rates. Under the terms of these agreements, the Company has an effective interest rate of approximately 12.25 percent on \$250 million of floating rate obligations through 1991.

In May 1987, Railroad issued \$150 million of Consolidated Mortgage 8 1/8% Bonds, Series I, due 1994. The Series I Bonds are not redeemable prior to maturity and are not entitled to any sinking fund. In November 1987, Railroad issued \$150 million of Consolidated Mortgage 10% Bonds, Series J, due 1997. The Series J Bonds are not redeemable prior to Nov. 1, 1994, and are not entitled to any sinking fund. In Mar. 1987, Railroad redeemed \$125 million of Consolidated Mortgage 12 1/8% Bonds, Series G, due 2005, at 108.84 percent of principal.

In March 1987, EPNG issued \$150 million of 8 3/4% Debentures, due 2012. Beginning in 1998, the Debentures are subject to redemption through payments into sinking fund of \$9 million annually. In Mar. 1987, EPNG redeemed approximately \$46 million of its 12.45% Debentures due 1997, at 107 percent of principal. In May 1987, EPNG redeemed approximately \$87 million of 16.70% Debentures due 2002 and \$100 million of 15.75% Notes due 1992, at 112.06 and 104.5 percent of principal, respectively.

In October 1987, \$50 million aggregate principal amount of The El Paso Company 13% Convertible Subordinated Notes were converted into 969,274 shares of common stock of the Co. at \$51.59 per



share. The conversion was made utilizing treasury shares that had been reserved for this purpose.

Aggregate long-term debt maturities for 1988 through 1992 are \$197,243,000, \$192,388,000, \$179,653,000, \$111,181,000 and \$193,220,000, respectively. These amounts do not include repayment requirements that arise when mortgaged property is sold.

Substantially all of Railroad's properties and certain other assets are pledged as collateral to or are otherwise restricted under long-term debt agreements. In January 1988, a settlement became final between Railroad and holders of the Northern Pacific Railway Company 4% prior lien bonds and 3% general lien bonds and released certain resource properties from the liens of the bonds.

#### Lease Obligations

The Company has substantial lease commitments for railroad track structure and equipment, highway and data processing equipment, office buildings and a taconite dock facility. Substantially all of these leases provide the option to purchase the equipment at fair market value at the end of the lease.

Certain noncancellable leases are classified as capital leases and are included in property. The consolidated balance sheet at December 31, 1987 and 1986, includes \$150,712,000 and \$150,805,000, respectively, of properties and \$54,926,000 and \$52,974,000, respectively, of accumulated amortization relating to capital leases.

Lease rental expense for operating leases is \$179,502,000, \$179,352,000 and \$165,508,000 for the years ended December 31, 1987, 1986 and 1985, respectively. To be consistent, lease rental expense for 1986 and 1985 has been adjusted for certain Railroad contract payments which were not previously classified as rental expense.

Minimum annual rental commitments at December 31, 1987, are as follows (in thousands):

Year Ending December 31,	Capital Leases	Operating Leases
1988 .....	22,265	143,529
1989 .....	17,890	134,314
1990 .....	16,452	123,313
1991 .....	14,630	110,041
1992 .....	12,344	96,899
Thereafter .....	73,749	619,793
Total .....	157,330	\$1,227,889

\$10 par value, authorized 1,744,295 shares:

Balance, beginning of year .....	1,720,121	\$17,201
Acquired during year .....	140,251	1,402
Balance, end of year .....	1,579,870	\$15,799

No par value, authorized 25,000,000 shares:

<b>\$9 Series:</b>				
Balance, beginning of year .....	408,000	\$40,800	510,000	\$51,000
Acquired during year .....	408,000	40,800	102,000	10,200
Balance, end of year .....	.....	\$.....	408,000	\$40,800
<b>\$2.125 Series:</b>				
Balance, beginning of year .....	1,247,466	\$31,187	1,336,166	\$33,423
Issued on exercise of stock options .....	660	5	.....	.....
Acquired during year .....	1,248,126	31,192	88,700	2,236
Balance, end of year .....	.....	\$.....	1,247,466	\$31,187
<b>Adjustable Rate Series:</b>				
Balance, beginning of year .....	6,614,050	\$317,474	7,015,878	\$336,762
Acquired during year .....	6,613,000	317,424	401,100	19,253
Adjusted for fractional shares .....	1,050	50	728	35
Balance, end of year .....	.....	\$.....	6,614,050	\$317,474

**\$10 Par Value Preferred Stock, Cumulative**

The Company is required to retire 123,458 shares annually, through redemption at par or cancellation of shares acquired through open-market purchases.

**\$9 Series No Par Value Preferred Stock, Cumulative**  
The Company redeemed all of the outstanding stock in 1986, including 306,000 shares redeemed early at \$102 per share and 102,000 shares at par.

**\$2.125 Series No Par Value Preferred Stock, \$25 Redemption Value, Cumulative**  
The Company redeemed all of the outstanding stock at \$26.40 per share in 1986.

**Adjustable Rate Series No Par Value Preferred Stock, \$48 Redemption Value, Cumulative**  
The Company redeemed all of the outstanding stock at \$48 per share in 1986.

**No Par Value Preferred Stock and Class A Preferred Stock Without Par Value — Unissued**

At December 31, 1987, the Company has available for issuance 25,000,000 shares of No Par Value

Less amount representing interest .....	55,581
Present value of minimum lease payments .....	\$101,749

#### 3. Income Taxes

The provision for income taxes, excluding the effect of the 1986 change in Railroad depreciation method of accounting, is as follows (in thousands):

	Year Ended December 31, 1987	1986	1985
Current			
Federal .....	\$73,736	\$18,015	\$20,602
State .....	(231)	619	18,411
	73,505	18,634	39,013
Deferred			
Federal .....	186,941	54,609	372,808
State .....	26,151	(3,143)	31,887
	213,092	51,466	404,695
Total .....	\$286,597	\$70,100	\$443,708

Reconciliation of statutory income tax rate to the effective income tax rate is as follows:

	Year Ended December 31, 1987	1986	1985
Statutory expense (benefit) rate .....	40.0%	(46.0)%	46.0%
State income taxes net of federal tax benefit .....	2.4	(0.3)	2.6
Acquisition adjustments .....	4.6	4.0	2.7
Dividend exclusion .....	(0.7)	(2.3)	.....
Capital gain tax rates .....	(1.0)	(0.7)	(1.9)
Investment tax credit .....	.....	(0.6)	(5.9)
Writedown of oil and gas properties .....	.....	61.2	.....
Other .....	(1.6)	0.1	(0.8)
Effective Rate .....	43.7%	15.4%	42.7%

Deferred tax expense consists of the following (in thousands):

	Year Ended December 31, 1987	1986	1985
Excess of tax over book depreciation .....	\$81,780	\$161,974	\$267,151
Recoverable excess gas costs .....	105,581	(17,264)	(14,403)
Accruals for casualties, claims and expenses not deductible in the current year .....	539	(27,326)	\$2,318

Intangible drilling costs .....	(37,446)	(25,510)	(14,831)
Tax operating loss carryovers .....	4,215	1,835	11,682
Investment tax credit carryovers .....	23,076	57,834	45,739
Alternative minimum tax .....	(17,488)	.....	.....
Writedown of railroad assets .....	.....	(162,149)	.....
Other .....	52,835	62,072	57,039

Total .....

\$213,092 \$51,466 \$404,695

Investment tax credits generated for the years 1986 to 1985 are \$5.0 million and \$78.9 million, respectively. As of December 31, 1987, approximately \$91.7 million of investment tax credit carryovers are available to offset future tax liabilities and approximately \$50.3 million of net operating loss carryovers are available to offset future taxable income for up to 14 years. Approximately \$5.7 million of the investment tax credit carryovers and all of the net operating loss carryovers are restricted under the separate return limitation year rules of the Internal Revenue Service Regulations. The benefits of the investment tax credit and net operating loss carryovers have been recognized for accounting purposes.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes ("SFAS No. 96"). After implementation, the primary impact of SFAS No. 96 is that deferred tax liabilities or assets are to be adjusted for changes in tax laws or rates. Companies are required to adopt SFAS No. 96 by December 1989, although earlier adoption can be elected. There are several implementation alternatives under the transitional guidelines of SFAS No. 96, ranging from recording the prior year cumulative effect of the new rules entirely in the year of implementation to restating one or more prior years' financial statements. As the various alternatives could have considerably different effects on its financial statements, the Company is conducting an implementation study; at this time, the ultimate effect on its financial statements is uncertain.

#### 4. Preferred Stock — Redeemable

Preferred stock consists of the following:

	1987	Amount	1986	Amount	1985	Amount
Shares (Thousands)	Shares (Thousands)	Shares (Thousands)	Shares (Thousands)	Shares (Thousands)	Shares (Thousands)	Shares (Thousands)
1,720,121	\$17,201	1,846,448	\$18,464	1,966,501	\$19,665	\$19,665
140,251	1,402	126,327	1,263	120,053	1,201	1,201
1,579,870	\$15,799	1,720,121	\$17,201	1,846,448	\$18,464	\$18,464
.....	.....	408,000	\$40,800	510,000	\$51,000	\$51,000
.....	.....	408,000	40,800	102,000	10,200	10,200
.....	.....	.....	\$.....	408,000	\$40,800	\$40,800
.....	.....	1,247,466	\$31,187	1,336,166	\$33,423	\$33,423
.....	.....	660	5	.....	.....	.....
.....	.....	1,248,126	31,192	88,700	2,236	2,236
.....	.....	.....	\$.....	1,247,466	\$31,187	\$31,187
.....	.....	6,614,050	\$317,474	7,015,878	\$336,762	\$336,762
.....	.....	6,613,000	317,424	401,100	19,253	19,253
.....	.....	1,050	50	728	35	35
.....	.....	.....	\$.....	6,614,050	\$317,474	\$317,474

entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Class A Preferred Stock at a price of \$190 per one one-hundredth of a share, subject to adjustment. If after the Rights become exercisable, the Company were to be acquired through a merger, each Right would permit the holder to purchase, for the exercise price, stock of the acquiring company having a value of twice the exercise price. In addition, if any person acquires 25 percent or more of the Company (other than as a result of a cash offer for all shares), each Right not owned by the holder of such 25 percent would permit the purchase, for the exercise price, of stock of the Company having a value of twice the exercise price. The Rights may be redeemed by the Company under certain circumstances until their expiration date for \$0.05 per Right.

The preferred stock redemption requirements for 1988 through 1992 are \$1,235,000 per year.

#### 5. Redeemable Preferred Stock of Subsidiary

The redeemable preferred stock of EPNG consists of the following at December 31:

	1987	Amount	1986	Amount	1985	Amount
Shares Outstanding	Shares Outstanding	Shares Outstanding	Shares Outstanding	Shares Outstanding	Shares Outstanding	Shares Outstanding
Preferred Stock, cumulative, no par value, 12,500,000 shares authorized:						
5 1/4% Series of 1965 .....	237,200	\$23,720	267,200	\$26,720	297,200	\$29,720
10 1/4% Series of 1970 .....	.....	.....	.....	.....	186,766	18,678
8 1/4% Series of 1972 .....	172,500	17,250	178,250	17,825	184,000	18,400
9 1/4% Series of 1978 .....	.....	.....	.....	.....	441,270	44,127
Total .....	.....	\$40,970	.....	\$44,545	.....	\$110,925

In February 1986, EPNG redeemed all of the outstanding stock of the 10 1/4% Cumulative Preferred Stock, Series of 1970 at \$102.50 per share and its 9 1/4% Cumulative Preferred Stock, Series of 1978 at \$105.44 per share.

The aggregate redemption value of EPNG's redeemable preferred stock was approximately \$41 million at December 31, 1987. The aggregate sink-

ing fund requirements are \$4,150,000 per year for 1988 through 1992.



### 6. Common Stock, Treasury Stock and Stock Options

Common and treasury stock activity is as follows:

	1987		1985	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount
Common stock:				
Balance, beginning of year	75,622,872	\$881,214	75,557,266	\$875,753
Exercise of Stock options	78,420	7,767	65,606	5,431
Conversion of convertible notes	.....	10,762	.....	.....
Balance, end of year	75,701,292	\$899,743	75,622,872	\$881,214
Treasury stock:				
Balance, beginning of year	1,838,567	\$72,578	1,977,276	\$78,260
Exercise of stock options and other — net	(153,887)	(5,806)	(138,709)	(5,682)
Conversion of convertible notes	(969,274)	(38,416)	.....	.....
Stock acquired under repurchase programs	523,800	28,228	.....	.....
Balance, end of year	1,239,206	\$56,584	1,838,567	\$72,578

Under the Company's stock option plans, options may be granted to officers and key salaried employees at fair market value at the date of grant, exercisable in whole or part by the optionee after completion of one year of continuous employment from the grant date. The Company also grants stock appreciation rights ("SARs") to certain holders of stock options. SARs are exercisable during the same period as the options. The option holder can elect to exercise either the option or the SAR. SARs entitle an option holder to receive a payment equal to the difference between the option price and the fair market value of the common stock at the date of exercise of the SAR. To the extent the SAR is exercised, the related option is cancelled and to the extent the option is exercised the related SAR is cancelled.

Activity in stock option plans was as follows:

	Options	SARs	Exercise Price per Share
Balance, January 1, 1985	1,108,121	201,690	6.17 to 49.31
Granted	281,250	77,750	— 52.00
Exercised	367,221	98,750	6.17 to 45.88
Cancelled	114,550	17,400	22.09 to 52.00
Balance, December 31, 1985	907,600	163,290	9.59 to 52.00
Granted	196,200	57,700	68.19 to 70.19
Exercised	227,838	63,836	9.59 to 52.00
Cancelled	90,788	16,854	10.22 to 68.38
Balance, December 31, 1986	785,174	140,300	9.59 to 70.19
Granted	255,300	71,900	69.94 to 79.56
Exercised	231,519	20,800	9.59 to 68.38
Cancelled	54,450	13,500	12.13 to 69.94

Balance, December 31, 1987 754,505 177,900 9.59 to 79.56  
At December 31, 1987, 505,705 options and 106,000 SARs are exercisable at prices of \$9.59 to \$70.19 per share. At December 31, 1987 and 1986, 1,251,200 and 1,160,010 shares, respectively, are available for additional grant under the plans.

Shares issued upon exercise of options may be issued from treasury shares or from authorized but unissued shares. The Company has a formal program to systematically repurchase treasury shares for the plans.

On October 20, 1987, the Company announced a program to repurchase up to 5 million shares or approximately 7 percent of its common stock from time to time based upon market conditions.

#### 7. Acquisition of Southland Royalty Company

On December 13, 1985, Southland became a wholly owned subsidiary of the Company pursuant to an Agreement of Merger between the Company and Southland dated as of November 21, 1985 and following a tender offer for all the outstanding shares of common stock of Southland commenced by the Company on October 22, 1985. The aggregate consideration for the common stock of Southland acquired by the Company was approximately \$730 million. Southland is accounted for by the equity method in 1985, including appropriate purchase accounting adjustments.

#### 8. Pension Plans

The Company's pension plans are non-contributory defined benefit plans covering substantially all non-union employees. The benefits are based on years of credited service and highest five year average compensation levels. Contributions to the plans are based upon the Projected Unit Credit actuarial funding method and are limited to amounts that are currently deductible for tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plans' funded status and amounts recognized in the Company's consolidated financial statements (In Thousands):

	Dec. 31, 1987	Dec. 31, 1986
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$773,422 and \$771,095 in 1987 and 1986, respectively	\$785,548	\$793,130
Projected benefit obligation for service rendered to date	947,400	970,429
Plan assets, primarily marketable equity & debt securities, at fair value	(824,801)	(818,416)
Projected benefit obligation in excess of plan assets	122,599	152,013

Unrecognized net gain (loss)	1,222	(30,089)
Unamortized net transition obligation	(114,592)	(112,814)
Net accrued pension cost	\$9,229	\$809
Pension cost for the plans includes the following components:		
Service cost — benefits earned during the period	\$14,275	\$14,124
Interest cost on projected benefit obligation	86,024	83,127
Actual return on plan assets	(60,825)	(130,365)
Net amortization and deferred amounts	(3,175)	67,200
Net pension cost	\$36,299	\$34,086

The projected benefit obligations was determined using weighted average discount rates of 10 percent and 9.25 percent at December 31, 1987 and 1986, respectively, and a rate of increase in future compensation levels at 6 percent at December 31, 1987 and 1986. The expected long-term rate of return on plan assets was 10 percent at December 31, 1987 and 1986. Pension cost was \$42,495,000 in 1985.

#### 9. Change in Accounting Method

In the second quarter of 1986, the Company adopted a method of depreciation for the majority of its railroad transportation properties that closely approximates a unit method rather than the composite method of depreciation previously used. This method was adopted to more accurately reflect physical use of assets in the current deregulated transportation environment. The new method has been applied to prior years' property acquisitions resulting in a \$336 million after tax charge to the first quarter 1986.

#### 10. Special charge

The non-cash, pretax Special Charge of \$957 million includes a writedown of the Company's oil and gas properties and a writeoff of surplus railroad assets. The after tax impact of this Special Charge increased 1986 Net Loss by \$802 million, \$10.83 per share. At June 30, 1986, the Company's unamortized oil and gas capitalized costs exceeded the present value of future net revenues based on the Company's method of accounting for oil and gas properties. As a result, the Company recorded a \$605 million pretax charge to reflect the substantial decline in oil and gas prices. The Company also conducted a review of its railroad physical properties. The Special Charge includes a \$352 million provision for surplus, obsolete or otherwise unproductive assets, including locomotives, rolling stock and abandoned track.

#### 11. Commitments and Contingent Liabilities

In October 1986, Railroad entered into an electrical power purchase agreement under which payment is based on the number of megawatt hours of energy consumed, subject to a specified take-or-pay minimum. The agreement requires a number of locomotives sufficient to provide the necessary megawatt hours to Railroad. Railroad's absolute, annualized minimum payment obligation is \$12.5 million over the fifteen-year term of the agreement. This payment will vary upward depending on mechanical practices, performance and utilization. Based on current availability and usage, Railroad's payment in 1988 is expected to equal or exceed \$28.9 million. As of December 31, 1987, Railroad had purchased \$30.8 million of electrical power under this agreement.

In December 1987, Railroad entered into another locomotive electrical power purchase agreement for a ten-year term. Payment under this agreement will vary depending on mechanical practices, performance and utilization. Railroad's absolute annual take-or-pay commitment is \$13.1 million over the term of the agreement. Based on estimates of usage and additional power to be provided, Railroad's payment in 1988 is expected to equal or exceed \$25.6 million.

In connection with its program to transfer certain rail lines to independent operators, Railroad has agreed to make certain payments for services performed by the operators in connection with traffic that involves the short lines and Railroad as carriers. These payments are not fixed in amount, will vary with such factors as traffic volumes and short line costs and are not expected to exceed normal business requirements for services received.

Revenues for these joint moves will continue to be reflected by Railroad as revenue from operations. No gains or losses were recorded in connection with these transfers during 1987.

There are no other commitments or contingent liabilities which would have a materially adverse effect on the financial position or the results of operations. See "Legal Proceedings" and "Natural Gas Operations" in the Company's 1987 Annual Report on Form 10-K for information concerning litigation, commitments and contingent liabilities.

### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

(As Taken From Annual Report of Company)

To the Stockholders and Directors of Burlington Northern Inc.

We have examined the consolidated balance sheets of Burlington Northern Inc. at December 31, 1987 and 1986, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Burlington Northern Inc. at December 31, 1987 and 1986, and the consolidated results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, in the method of accounting for railroad transportation properties as described in Note 9 to the financial statements.

COOPERS & LYBRAND  
Seattle, Washington  
January 21, 1988

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(As Taken From Annual Report of Company)

#### Financial Condition

Funds provided before financing activities were \$596 million in 1987, compared to \$622 million and \$182 million (excluding \$730 million of funds to acquire Southland) in 1986 and 1985, respectively. The long-term debt to capital (long-term debt, preferred stock-redeemable and common stockholders' equity) ratios at December 31, 1987 and 1986 were 44 and 49 percent, respectively. The December 31, 1985 pro forma long-term debt to capital ratio (including Southland) was 41 percent. The Company and EPNG have credit line agreements totaling \$1.65 billion. Outstanding commercial paper reduces the amount available under these agreements. (See Note 2 of Notes to Consolidated Financial Statements.) The Company and EPNG have filed \$600 million in shelf registration statements for issuance of additional debt securities.

In October 1987, the Company announced a program to repurchase up to 5 million shares or approximately 7 percent of its common stock. Through Dec. 31, 1987, 523,800 shares have been acquired at an average cost of \$53.89 per share. Additional purchases will be made from time to time based upon market conditions.

#### Dividends

On January 21, 1987, the Board of Directors declared a common stock quarterly dividend of \$0.55 per share, payable April 1, 1988. Dividend levels are determined by the Board of Directors based on profitability, capital expenditures, financing and other factors.

#### Capital Expenditures and Resources

Capital expenditures during the past five years were \$3.8 billion. Capital expenditures decreased 18 percent to \$484 million, compared to \$591 million and \$1.1 billion in 1986 and 1985, respectively. Railroad capital expenditures decreased 21 percent to \$276 million, compared to \$351 million and \$651 million in 1986 and 1985, respectively. Natural Gas Operations capital expenditures decreased 35 percent to \$47 million, compared to \$72 million and \$95 million in 1986 and 1985, respectively. Oil and

Gas capital expenditures decreased 11 percent to \$103 million, compared to \$116 million and \$335 million in 1986 and 1985, respectively.

Capital expenditures for 1988, projected to be approximately \$750 million, will be funded from internal cash flow, supplemented by the Company's continuing ability to obtain external financing.

#### Results of Operations

Net Income for 1987 was \$369 million, \$4.93 per share, compared to Net Loss for 1986 of \$360 million, \$12.07 per share and Pro Forma Net Income for 1985 (adjusted for the impact of the change in Railroad depreciation method) of \$557 million, \$6.65 per share. The Net Loss for 1986 includes an after-tax Special Charge of \$802 million, \$10.83 per share, and an after-tax charge for the cumulative prior year effect of the change in Railroad depreciation method, of \$336 million, \$4.54 per share (See Notes 9 and 10 of Notes to Consolidated Financial Statements).

Operating Income for 1987 was \$1.1 billion compared to Operating Loss for 1986 of \$129 million which includes a pre-tax Special Charge of \$957 million. Operating Income for 1985 (adjusted for the impact of the change in Railroad depreciation method of \$77 million) was \$1.2 billion.

Railroad revenues increased 8 percent from 1986, which decreased 8 percent from 1985. The changes in revenues were caused by volume changes, price adjustments to meet competition and 1986 coal rate litigation reserves totalling \$101 million. Railroad volume, as measured in revenue-ton-miles, increased 10 percent from 1986, which increased 2 percent from 1985. Volumes increased in all major commodity groups in 1987 with the agricultural, forest products and intermodal groups contributing significant volumes as well as revenue increases of over 10 percent each. Coal and taconite, Railroad's major commodity group, had an increase in volume and revenues of 4 percent and 5 percent, respectively, from 1986, which decreased 7 percent and 13 percent, respectively, from 1985. Natural Gas Operations revenues were \$1.4 billion, \$2.1 billion and \$3.7 billion in 1987, 1986 and 1985, respectively. Natural Gas Operations revenues were \$1.4 billion, \$2.1 billion and \$3.7 billion in 1987, 1986 and 1985, respectively. Natural Gas Operations revenues decreased due to lower commodity sales prices and volumes, partially offset by increased transportation revenues. Oil and Gas revenues were \$736 million, \$741 million and \$986 million in 1987, 1986 and 1985, respectively. The decline in 1987 is due to lower gas prices, partially offset by higher oil prices and higher NGL prices and volumes.

Railroad costs and expenses increased 5 percent from 1986, which increased 1 percent from 1985. The changes in costs and expenses were affected by traffic volumes, depreciation, diesel fuel and labor costs. Depreciation, diesel fuel and labor costs were \$281 million, \$281 million and \$1.6 billion, respectively, in 1987, compared to \$312 million, \$261 million, and \$1.5 billion in 1986, and \$234 million, \$401 million and \$1.5 billion in 1985. The 1987 Railroad operating ratio was 85.1 percent, compared to 97.3 percent in 1986 and 80.7 percent in 1985. The Special Charge and change in Railroad depreciation method of accounting resulted in an increase of 11.5 to the 1986 operating ratio. Natural Gas Operations costs and expenses were \$1.2 billion in 1987, compared with \$1.9 billion in 1986 and \$3.4 billion in 1985. The decrease in costs and expenses resulted from reduced purchased gas volumes and costs. Oil and Gas costs and expenses totaled \$637 million in 1987, compared with \$722 million and \$889 million in 1986 and 1985, respectively. The decrease in 1987 is due to reduced costs associated with gas purchased and a nonrecurring \$6 million favorable NGL cost adjustment. Additional contributions to the 1987 and 1986 decreases were efficiencies gained from the consolidation of Meridian and Southland and lower exploration and depreciation expense.

Interest Expense decreased to \$372 million, compared to \$389 million in 1986 and \$312 million in 1985. The 1987 decrease is primarily due to debt redemptions made by EPNG in the second quarter of 1987. The increase in 1986 is substantially due to debt incurred in connection with the acquisition of Southland and the redemption of preferred stock.

Other Income (Expense) — Net was \$(22) million, \$63 million and \$106 million in 1987, 1986 and 1985, respectively. The decrease in 1987 is primarily due to lower interest and dividend income and a premium paid for the redemption of Railroad bonds, partially offset by a gain on sale of stock investments. The decrease in 1986 is primarily due to a reserve for a sale of properties and interest charges on the coal rate cases, partially offset by higher equity income and the sale of one-half of Railroad's interest in a 10.7 mile line extension in Wyoming. Additionally, certain 1985 nonrecurring items, including partial collection of a note (previously reserved), and a gain on sale of Burlington Northern Airmotive Inc., affected the decrease in 1986. Interest and dividend income was \$8 million, \$37 million and \$40 million in 1987, 1986 and 1985, respectively.

Preferred dividend requirements decreased to \$4 million, compared to \$33 million and \$66 million in 1986 and 1985, respectively. The reduction is due to preferred stock redemptions and the decline in the Adjustable Rate Series preferred stock dividend requirement.

#### OTHER MATTERS

See "Legal Proceedings" and "Natural Gas Operations" in the Co.'s 1987 Annual Report on

Form 10-K for information concerning litigation and other matters.

#### EFFECT OF INFLATION

The Company generally has experienced increased costs in recent years due to the effect of inflation on the cost of labor, material and supplies, and plant and equipment. A portion of the increased labor and material and supplies costs directly affects income through increased maintenance and operating costs. The cumulative impact of inflation over a number of years has resulted in higher depreciation and depletion expenses and increased costs for current replacement of productive facilities. However, operating efficiencies have partially offset this impact, as have price increases, although the latter have generally not been adequate to cover increased costs due to inflation. Competition and other market factors limit the Company's ability to price services or products based upon inflation's effect on costs.

#### REPORT OF MANAGEMENT

(As Taken From Annual Report of Company) To the Stockholders and Directors of Burlington Northern Inc.

The accompanying financial statements have been prepared by management in conformity with generally accepted accounting principles. The fairness and integrity of these financial statements, including any judgments, estimates and selection of appropriate generally accepted accounting principles, are the responsibility of management, as is all other information presented in this Annual Report Form 10-K.

In the opinion of management, the financial statements are fairly stated, and, to that end, the Company maintains a system of internal control which provides reasonable assurance that transactions are recorded properly for the preparation of financial statements; safeguards assets against loss or unauthorized use; maintains accountability for assets; and requires proper authorization and accounting for all transactions. Management is responsible for the effectiveness of internal control. This is accomplished through established codes of conduct, accounting and other control systems, policies and procedures, employee selection and training, appropriate delegation of authority and segregation of responsibilities. To further ensure compliance with established standards and related control procedures, the Co. conducts a substantial corporate audit program.

Our independent certified public accountants provide an objective independent review by their examination of the Company's financial statements. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of internal accounting control to the extent deemed necessary for the purposes of their examination.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets regularly with the independent certified public accountants, management, and corporate audit to review the work of each and to ensure that each is properly discharging its financial reporting and internal control responsibilities. To ensure complete independence, the certified public accountants and corporate audit have full and free access to the Audit Committee to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

Luino Dell'Osso, Jr.  
Senior Vice President,  
Finance & Planning

Frank J. Winnermark  
Vice President & Controller

#### FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### CONSOLIDATED SEGMENT INFORMATION

	Year Ended December 31,		
	1987	1986	1985
Revenues:			
Railroad .....	\$4,038,241	\$3,740,732	\$4,048,544
Natural Gas Operations .....	1,443,724	2,149,243	3,676,491
Oil and Gas .....	735,912	740,566	985,921
Forest Products .....	299,656	285,780	258,428
Other & Eliminations .....	103,324	25,092	(318,457)
Total .....	\$6,620,857	\$6,941,413	\$8,650,927
Costs and Expenses:			
Railroad .....	\$3,435,987	\$3,287,397	\$3,268,688
Natural Gas Operations .....	1,151,958	1,854,142	3,360,323
Oil and Gas .....	636,705	721,793	888,986
Forest Products .....	229,257	232,439	212,401
Other & Eliminations .....	116,471	17,253	(325,493)
Total .....	\$5,570,378	\$6,113,024	\$7,404,905
Special Charge:			
Railroad .....		\$352,498	\$.....
Oil and Gas .....		604,594	\$.....
Total .....		\$957,092	\$.....
Operating Income (Loss):			
Railroad .....	\$602,254	\$100,837	\$779,856
Natural Gas Operations .....	291,766	295,101	316,168
Oil and Gas .....	99,207	(585,821)	96,935
Forest Products .....	70,399	53,341	46,027

Other and Eliminations .....	(13,147)	7,839	7,036
Total .....	\$1,050,479	\$(128,703)	\$1,246,022

Approximately 54 percent, 64 percent and 73 percent of Natural Gas Operations revenues for the years 1987, 1986 and 1985, respectively, were from sales to Southern California Gas Company and Pacific Gas and Electric Company.

Intersegment sales from Oil and Gas to Natural Gas Operations were \$47 million, \$125 million and \$216 million for the years 1987, 1986 and 1985, respectively. Intersegment sales from Natural Gas Operations to Oil and Gas were \$135 million, \$107 million and \$242 million for the years 1987, 1986 and 1985, respectively.

The non-cash, pretax Special Charge includes a writedown of the Company's oil and gas properties and a writeoff of surplus railroad assets. See Note 10 of Notes to Consolidated Financial Statements.

As of Jan. 1, 1987, Glacier Park Company assumed management responsibility for real estate activities which had previously been reported as part of Railroad operations. Prior years' Revenues and Costs and Expenses, relating to these activities, have been reclassified from Railroad to Other and Eliminations.

#### CONSOLIDATED SEGMENT INFORMATION

	Year Ended December 31,		
	1987	1986	1985
(In Thousands)			
Identifiable Assets at End of Year:			
Railroad .....	\$6,006,598	\$5,952,148	\$7,053,364
Natural Gas Operations .....	2,048,131	1,722,968	1,885,889
Oil and Gas .....	2,191,758	2,271,662	2,130,534
Forest Products .....	135,303	130,509	135,390
Corporate and Other Operations .....	566,478	573,669	1,050,864
Total .....	\$10,948,268	\$10,650,956	\$12,256,041
Depreciation, Depletion and Amortization:			
Railroad .....	\$280,576	\$312,231	\$234,411
Natural Gas Operations .....	70,488	67,262	96,622
Oil and Gas .....	149,594	179,724	120,324
Forest Products .....	9,964	16,542	13,168
Corporate and Other Operations .....	23,376	20,587	11,106
Total .....	\$533,998	\$596,346	\$475,631
Capital Expenditures:			
Railroad .....	\$276,379	\$351,196	\$650,560
Natural Gas Operations .....	47,290	72,010	94,977
Oil and Gas .....	102,620	116,063	334,846
Forest Products .....	17,387	12,238	15,208
Corporate and Other Operations .....	40,226	39,980	35,771
Total .....	\$483,902	\$591,487	\$1,131,362

The retroactive application of the new method of depreciation is recognized effective as of Jan. 1, 1986. See Note 9 of Notes to Consolidated Financial Statements.

The 1985 amount includes approximately \$730 million for the acquisition of Southland.

#### SUPPLEMENTAL OIL AND GAS DISCLOSURES — Unaudited

The supplemental data presented herein reflects all of the Co.'s oil and gas properties excluding those of Southland Royalty Company ("Southland") in 1985 unless otherwise indicated.

Capitalized costs for oil and gas producing activities consist of the following:

	December 31,		
	1987	1986	1985
(In thousands)			
Proved properties .....	\$2,317,741	\$2,247,813	
Unproved properties .....	88,012	116,996	
	2,405,753	2,364,809	
Accumulated depreciation, deplet, & amort. ("DD&A") .....	563,122	443,641	
Net capitalized costs .....	\$1,842,631	\$1,921,168	
Costs incurred for oil and gas property acquisition, exploration and development activities are as follows:			
Years Ended Dec. 31,			
(In Thousands)			
Property acquisition:			
Unproved .....	\$13,686	\$25,117	\$40,989
Proved .....	12,052	.....	45,000
Exploration .....	22,834	30,414	71,311
Development .....	45,948	40,500	145,528
Total costs incurred .....	\$94,520	\$96,031	\$302,828
Results of operations for oil and gas producing activities are as follows:			
Years Ended Dec. 31,			
(In Thousands)			
Net revenues .....	\$387,621	\$405,751	\$412,322
Production costs .....	122,615	120,155	78,325
Oil & gas prop. writedown .....	.....	604,594	.....
Explor. & impair. .....	47,177	58,095	118,859
Operating expenses .....	44,422	67,068	56,694
DD&A .....	131,971	158,658	105,335
	346,185	1,008,570	359,213
Operating inc. (loss) .....	41,436	(602,819)	53,109



Income tax provision .....	33,741	28,840	41,691
Results of oper. for oil & gas prod. ....			
activ. ....	\$7,695	\$(631,659)	\$11,418
Equity in Southland oil & gas prod. activ. ....			\$1,000
(See Note 10 of Notes to Consolidated Financial Statements.)			

The following table reflects estimated quantities of proved oil and gas reserves. These reserves have been reduced for royalty interests owned by others. These reserves, virtually all located in the United States, have been estimated by the Company's engineers and geologists.

	Oil (MMBbls)	Gas (BCF)
<b>Proved Developed &amp; Undeveloped Reserves</b>		
Jan. 1, 1985 .....	45.0	2,517
Revision of prev. est. ....	(0.4)	43
Extens., discov. & oth. add. ....	10.5	50
Production .....	(5.0)	(107)
Purch. of res. in place ..	0.2	60
Southland acq. ....	55.6	444
Dec. 31, 1985 .....	105.9	3,007
Revision of prev. est. ....	(7.7)	(36)
Extens., discov. & oth. add. ....	6.2	61
Production .....	(11.1)	(145)
Dec. 31, 1986 .....	93.3	2,887
Revision of previous est. ....	(1.8)	3
Ext. discov. & oth. adds. ....	3.3	68
Production .....	(9.7)	(151)
Purch. of res. in place ..	0.5	7
Sales of res. in place ....	(1.2)	(7)
Dec. 31, 1987 .....	84.4	2,807
<b>Proved Developed Reserves</b>		
Jan. 1, 1985 .....	35.1	1,591
Dec. 31, 1985 .....	79.5	2,042
Dec. 31, 1986 .....	75.0	2,141
Dec. 31, 1987 .....	69.9	2,098

A summary of the standardized measure of discounted future net cash flows relating to proved oil and gas reserves is shown below. Future net cash flows are computed using year-end costs and statutory tax rates (adjusted for permanent differences and tax credits) that relate to the Company's existing proved oil and gas reserves.

	December 31, 1987	1986
	(In Thousands)	
Future cash inflows .....	\$5,654,000	\$5,451,000
Less related future:		
Production costs .....	1,994,000	1,627,000
Development costs .....	315,000	318,000
Income taxes .....	928,000	1,093,000
Future net cash flows ..	2,417,000	2,413,000
10% annual disc. for est. timing of cash flows ...	1,349,000	1,406,000
Standardized measure of disc. future net cash flows .....	\$1,068,000	\$1,007,000

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved oil and gas reserves is as follows:

	1987	1986	1985
	(In Thousands)		
January 1, .....	\$1,007,000	\$1,862,000	\$1,411,000
Revisions of previous estimates:			
Changes in prices & costs .....	69,000	(1,681,000)	(314,000)
Changes in quantities .....	(14,000)	(51,000)	73,000
Changes in rate of prod. ....	30,000	(103,000)	(55,000)
Add. to proved res. resulting from extens., discov. & improved recovery, less rel. costs .....	28,000	46,000	114,000
Purch. of res. in place .....	7,000	.....	41,000
Sales of res. in place .....	(10,000)	.....	585,000
Southland acq. ....	143,000	327,000	252,000
Sales of oil & gas, net of prod. costs ..	(265,000)	(288,000)	(317,000)
Net change in inc. taxes .....	61,000	982,000	75,000
Other .....	12,000	(87,000)	(3,000)
Net change .....	61,000	(855,000)	451,000
December 31, .....	\$1,068,000	\$1,007,000	\$1,862,000

## LONG TERM DEBT

### 1. Burlington Northern Inc. 14 3/4% notes, due 1992:

**Rating — Baa1**  
**AUTH.** — \$100,000,000; outstg., Dec. 31, 1987, \$100,000,000.  
**DATED** — August 15, 1982. **DUE** — August 15, 1992.  
**INTEREST** — F&A 15 to holders registered F&A 1.  
**TRUSTEE** — Irving Trust Co.  
**DENOMINATION** — Fully registered, \$1,000 or any integral multiple thereof. Transferable and exchangeable without service charge.  
**CALLABLE** — Not callable prior to maturity.  
**SECURITY** — Not secured. Co. may not, and may not permit any restricted subsidiary to, create,

or incur or suffer to exist any mortgage on its designated property or on shares of any of any restricted subsidiary to secure indebtedness. This covenant does not prohibit the encumbrance of any properties of Co. other than the designated properties. The designated properties include, among other things, approximately 97% of the mileage of track in Co.'s rail network. The designated properties do not include certain principal assets of Railroad or any of the non-transportation assets of Co. This covenant does not apply to (a) mortgages on designated property or on shares of stock of any restricted subsidiary to secure the payment of, or to secure any indebtedness incurred for the purpose of financing, the costs of construction or improvements on designated property or (b) mortgages on designated property or on shares of stock of any restricted subsidiary in favor of Co. or any of its subsidiaries. Also excluded are mortgages in favor of the United States or any State, or any department, agency or instrumentality of either, to secure partial, progress, advance or other payments to Co. or any restricted subsidiary pursuant to the provisions of any contract or statute.

**INDENTURE MODIFICATION** — Indenture may be modified, except as provided, with consent of not less than a majority of notes outstg.

**RIGHTS ON DEFAULT** — Trustee, or 25% of notes outstg., may declare principal due and payable (30 days' grace for payment of interest).

**PURPOSE** — Proceeds were used, as required, for general corporate purposes, including working capital, capital expenditures and possible acquisitions of, or investments in, businesses, assets and marketable securities, including Co.'s common stock.

**OFFERED** — (\$100,000,000) at 99.354 plus accrued interest (proceeds to Co., 98.654) on August 13, 1982 thru Lehman Brothers Kuhn Loeb, Inc., Scherck, Stein & Franc, Inc. and associates.

**PRICE RANGE** — 1987 1986 1985 1984 1983  
 High ..... 130 128 122 110 118  
 Low ..... 110 121 109 101 107 1/2

### 2. Burlington Northern Inc. debenture 11 5/8%, due 2015:

**Rating — Baa1**  
**AUTH.** — \$250,000,000; outstg., Dec. 31, 1987, \$250,000,000.

**DATED** — Aug. 15, 1985. **DUE** — Aug. 15, 2015.

**INTEREST** — F&A 15 to holders registered F&A 1.

**TRUSTEE** — Irving Trust Company.  
**DENOMINATION** — Fully registered, \$1,000 or any multiple thereof. Transferable and exchangeable without service charge.

**CALLABLE** — As a whole or in part at any time, at the option of Co., on at least 30 but not more than 60 days' notice to each Aug. 4 as follows:

1989.....	109.80	1990.....	109.22	1991.....	108.64
1992.....	108.07	1993.....	107.49	1994.....	106.92
1995.....	106.34	1996.....	106.75	1997.....	105.19
1998.....	104.61	1999.....	104.03	2000.....	103.46
2001.....	102.88	2002.....	102.31	2003.....	101.73
2004.....	101.15	2005.....	100.58		

and thereafter at 100 plus accrued interest. Not callable, however, prior to Aug. 15, 1995 directly or indirectly from or in anticipation of money's borrowed at an interest cost of less than 11.64% per annum. Also callable for sinking fund (which see) at 100.

**SINKING FUND** — Annually Aug. 15, 1996-2014, sufficient to redeem \$12,500,000 principal amount of debts., plus similar optional payments. Sinking fund is designed to retire 95% of debts. outstg.

**SECURITY** — Not secured. (a) Co. will not, nor will it permit any subsidiary to, create, assume, incur or suffer to exist any mortgage upon any stock or indebtedness, whether owned on the date of the indenture or thereafter acquired, of any subsidiary, to secure any debt of Co. or any other person, without in any such case making effective provision whereby all of the debentures outstanding shall be directly secured equally and ratably with such debt. There will be excluded from this restriction any mortgage upon stock or indebtedness of a corporation existing at the time such corporation becomes a subsidiary or at the time stock or indebtedness of a subsidiary is acquired and any extension, renewal or replacement of any such mortgage.

(b) Co. will not, nor will it permit any restricted subsidiary to, create, assume, incur or suffer to exist any mortgage upon any principal property, whether owned or leased on the date of the indenture or thereafter acquired, to secure any debt of Co. or any other person, without in any such case making effective provision whereby all of the debentures outstanding shall be directly secured equally and ratably with such debt. There will be excluded from this restriction (i) any mortgage existing at the time a corporation becomes a restricted subsidiary, (ii) any mortgage existing at the time of acquisition of property, (iii) any mortgage to secure payment of any part of the purchase price of property or any Debt incurred prior to, at the time of or within 180 days thereafter to finance the purchase thereof, other than a purchase by a subsidiary from a restricted subsidiary or from Co., (iv) any mortgage to secure any part of the cost of exploration, drilling, development, timber cutting, construction, alteration, reforestation, repair or improvement of any property, or debt incurred prior to, at the time of or within 180 days thereafter to finance such cost, (v) any mortgage secured by pipeline assets of El Paso Natural Gas Company, (vi) any mortgage securing debt of a restricted subsidiary owing to Co. or to another restricted subsidiary, (vii) any mortgage existing at the date of the indenture, and

(viii) any extension, renewal or replacement of any such mortgage. Notwithstanding the foregoing, Co. may, and may permit any restricted subsidiary to, create, assume, incur or suffer to exist any mortgage upon any principal property which is not excepted by clauses (i) through (viii) above without equally and ratably securing the debentures, provided that the aggregate amount of all debt then outstanding secured by such mortgage and all similar mortgages does not exceed 5% of the total consolidated stockholders' equity of Co. as shown on the audited consolidated balance sheet contained in the latest annual report to stockholders of Co. For the purpose of this restriction, no mortgage to secure any debt will be deemed created by (i) the sale or other transfer of (A) any oil or gas or minerals or timber in place for a period until or in an amount such that, the purchaser will realize therefrom a specified amount of money or a specified amount of such oil or gas or minerals or timber, or (B) any other interest and (ii) any mortgage in favor of the United States or any state, or any other country, or any political subdivision thereof, to secure partial, progress, advance or other payments pursuant to any contract or statute, or any mortgage securing industrial development, pollution control or similar revenue bonds.

(c) Co. will not, nor will it permit any restricted subsidiary to, sell, transfer, or otherwise dispose of any principal property to the railroad other than (i) from cash or other consideration which, in the opinion of the board of directors, constitutes fair value for such principal property; or (ii) upon the condition that the provisions of paragraph (b) above applicable to restricted subsidiaries shall be applicable to the railroad in respect of each such principal property for which fair value was not received by Co. or the applicable restricted subsidiary in accordance with clause (i).

**INDENTURE MODIFICATION** — Indenture may be modified, except as provided, with consent of a majority of debts. outstg.

**RIGHTS ON DEFAULT** — Trustee, or 25% of debts., outstg., may declare principal due and payable (30 days' grace for payment of interest).

**LISTED** — New York, Midwest and Pacific Stock Exchange.

**PURPOSE** — Proceeds will be used for general corporate purposes, including working capital, capital expenditures and possible acquisitions of, or investments in, businesses and assets, including Co.'s common stock.

**OFFERED** — (\$250,000,000) at 99.90 plus accrued interest (proceeds to Co., 99.025) on Aug. 20, 1985 thru Morgan Stanley & Co. Inc., Scherck, Stein & Franc, Inc. and associates.

**PRICE RANGE** — 1987 1986 1985  
 High ..... 109 ..... 99 3/4  
 Low ..... 100 1/2 ..... 95

### 3. Burlington Northern Inc. 9 5/8% notes, due 1996:

**Rating — Baa1**  
**AUTH.** — \$300,000,000; outstg. Dec. 31, 1987, \$300,000,000.

**DATED** — Feb. 1, 1986. **DUE** — Feb. 1, 1996.

**INTEREST** — F&A 1 to holders registered J&J 15.

**TRUSTEE** — United States Trust Company.  
**DENOMINATION** — Fully registered, \$1,000 or any multiple thereof. Transferable and exchangeable without service charge.

**CALLABLE** — As a whole or in part, at any time after Feb. 1, 1993, at the option of Co. not less than 30 nor more than 60 days' notice at 100 plus accrued interest.

**LISTED** — New York, Midwest and Pacific Stock Exchange.

**SECURITY** — Same as deb. 11 5/8%, due 2015.

**PURPOSE** — Proceeds will be used, as required, for general corporate purposes, including working capital, capital expenditures, reduction of indebtedness related to the acquisition of Southland Royalty Company, and possible acquisitions of, or investments in, businesses and assets, including Co.'s common stock.

**OFFERED** — (\$300,000,000) at 99.30 plus accrued interest (proceeds to Co., 98.625) on Jan. 30, 1986 thru Morgan Stanley & Co. Incorporated; Salomon Brothers Inc. and associates.

**PRICE RANGE** — 1987, 107-95; 1986, 105 3/4-103 3/4.

### 4. Burlington Northern Inc. debentures 9%, due 2016:

**Rating — Baa1**  
**AUTH.** — \$200,000,000; outstg. Dec. 31, 1987, \$200,000,000.

**DATED** — Mar. 15, 1986. **DUE** — Apr. 1, 2016.

**INTEREST** — A&O 1 to holders registered M&S 15.

**TRUSTEE** — Citibank, N.A.  
**DENOMINATION** — Fully registered, \$1,000 or any multiple thereof. Transferable and exchangeable without service charge.

**CALLABLE** — As a whole or in part at any time, at the option of Co., on at least 30 but not more than 60 days' notice to each Mar. 31 as follows:

1989.....	108.10	1990.....	107.65	1991.....	107.20
1992.....	106.75	1993.....	106.30	1994.....	105.85
1995.....	105.40	1996.....	104.95	1997.....	104.50
1998.....	104.05	1999.....	103.60	2000.....	103.15
2001.....	102.70	2002.....	102.25	2003.....	101.80
2004.....	101.35	2005.....	100.90	2006.....	100.45

and thereafter at 100 plus accrued interest. Not callable, however, prior to Apr. 1, 1996 directly or indirectly from or in anticipation of money's borrowed by or for the account of Co. at an interest cost of less than 9% per annum. Also callable for sinking fund (which see) at 100.



**SINKING FUND**—Annually Apr. 1, 1997-2015, sufficient to redeem \$6,000,000 principal amount of debts, plus similar optional payments. Sinking fund is designed to retire 57% of debts prior to maturity.

**SECURITY—OTHER PROVISIONS**—Same as deb. 11 1/2%, due 2015.

**LISTED**—On New York, Midwest and Pacific Stock Exchange.

**OFFERED**—(\$200,000,000) at 100 plus accrued interest (proceeds to Co., 99.125) on Apr. 1, 1986 thru Morgan Stanley & Co. Inc.; Salomon Brothers Inc. and associates.

**PRICE RANGE**—1987, 101-81 1/2; 1986, 100-94 1/2.

**5. Other Long-Term Debt: Outstg., Dec. 31, 1987, \$2,348,301,000.** For details, see Long-Term Debt and Lease Obligations under Notes to Consolidated Financial Statements, above.

## CAPITAL STOCK,

**1. Burlington Northern Inc. 5 1/2% cumulative preferred; par \$10:**

**AUTH.**—1,744,295 shares; outstanding Dec. 31, 1987, 1,579,870 shares; par \$10.

**PREFERENCES**—Has preferences for assets and dividends.

**DIVIDEND RIGHTS**—Entitled to cumulative cash dividends of 55 cents a share annually payable quarterly the first day of Mar., June, etc.

**DIVIDEND RECORD**—Initial dividend of \$0.0458 paid Mar. 31, 1970; regular quarterly dividends of \$0.1375 paid thereafter.

**VOTING RIGHTS**—Has no voting power, except as provided by laws of Delaware, and except on default of 6 quarterly dividends when preferred voting as a class, is entitled to elect two directors; such voting rights to continue until such arrearages have been paid.

Consent of 66 2/3% of preferred required to authorize prior stock as to amend terms adversely; consent of majority of preferred to liquidate voluntarily. No vote of preferred required to increase authorized preferred or create one or more classes of preferred so long as such classes rank subordinate to preferred.

**PREEMPTIVE RIGHTS**—None.

**CALLABLE**—At \$10 per share plus dividends.

Also callable for sinking fund (which see) at \$10 a sh. and divs.

While preferred dividends are in arrears, Co. may not redeem less than all preferred without consent of 66 2/3% of preferred or purchase any preferred except on offer made to all holders of preferred.

**SINKING FUND**—Beginning Jan. 1, 1976 company will retire in each calendar year 4% of par value of preferred outstanding through redemp-

tion, or cancellation of such preferred shares theretofore purchased by it at or below par (such purchase shares to be valued for sinking fund purposes at par) or both; Co. may (any deficiency in mandatory payment for prior year having been made up) as an optional sinking fund in any one or more of such calendar years, so to redeem or cancel preferred shares theretofore purchased, or both, up to 4% of par value of preferred shares outstanding; aggregate amounts by which mandatory payments have been so anticipated in any year may be credited against future sinking fund requirements, provided that in no event would company be relieved for more than two consecutive calendar years from the mandatory sinking fund requirement.

**TRANSFER AGENTS, REGISTRARS & DIVIDEND DISBURSING AGENT**—Same as for common stock.

**ISSUED**—(3,080,843 shs.) on Mar. 2, 1970 in connection with merger of Great Northern Railway Co. (see history above).

**LISTED**—On NYSE (Symbol: BNI Pr).

**PRICE RANGE**— 1987 1986 1985 1984 1983  
High ..... 9 1/2 8 1/2 7 1/2 7 1/4  
Low ..... 8 7 6 6 5 1/2

**2. Burlington Northern Inc. common; no par:**

**AUTH.**—300,000,000 shares; outstanding Dec. 31, 1987, 74,462,086 shares; in treasury, 1,239,206 shares; reserved for options, 2,005,705 shares; no par.

No par shs. split 2-for-1 Feb. 24, 1984.

**DIVIDENDS**—(payments since 1969 follow):

— Burlington Northern Railroad Co. —  
1970.....\$1.77 1/2 1971-73.....\$1.50 1974.....\$1.60  
1975.....0.85 1976.....1.30 1977.....1.60  
1978.....1.70 1979.....1.95 1980.....1.05

On no par shs. after 2-for-1 split:

1980.....0.62 1/2 1981.....0.3125

— Burlington Northern Inc. —  
1981.....0.6925 1982.....1.67 1983.....1.66  
1984.....0.45

On no par shs. after 2-for-1 split:

1984.....0.75 1985.....1.30 1986.....\$1.55  
1987.....2.00 1988.....2.20

Also stock purchase rights, see below.

ET Oct. 3.

**VOTING RIGHTS**—Has one vote per share; no cumulative voting for directors.

**PREEMPTIVE RIGHTS**—None.

**ISSUED**—(12,294,595 shs.) on Mar. 2, 1970 to shareholders of Great Northern Railway Co., Northern Pacific Railway Co. and Chicago Burlington & Quincy Railroad Co. in the following

amounts (per share amounts based on outstanding publicly held shares as of Dec. 31, 1969):

6,161,727 shares to shareholders of Great Northern Railway Co. on a share-for-share basis (plus 1/2 share of preferred per common share, see history and preferred above).

5,995,342 shares to shareholders of Northern Pacific Railway Co. on a share-for-share basis.

156,380 shares to shareholders of Chicago Burlington & Quincy Railroad Co. on basis of 3/4 shares for each C.B.&Q. Railroad Co. share held.

**REGISTRAR, TRANSFER AGENT & DIVIDEND DISBURSING AGENT**—First National Bank of Boston, Boston.

**LISTED**—On NYSE (Symbol: BNI).

**PRICE RANGE**— 1987 1986 1985 1984 1983  
High ..... 84 1/4 82 1/2 72 1/2 50 109 1/2  
Low ..... 40 42 1/2 46 1/4 35 51

After 2-for-1 split; before, 109 1/2-66 3/4.

**Stock Purchase Rights:** On July 10, 1986, the board of directors of Co. declared a dividend of one pfd. stock purchase right on each outstg. share of Co. common stock. Each right will entitle stockholders to buy 1/100 of a share of a newly created series of pfd. stock of Co. at an exercise price of \$190. Each 1/100 of a share of Co. pfd. stock will have dividends and voting rights approximately equal to those of one share of Co. com. stock. The rights will be exercisable only if, without Co.'s prior consent, a person or group acquires securities having 20% or more of the voting power of all Co. voting securities or announces a tender offer which would result in such 20% ownership. Co. will be entitled to redeem the rights at \$0.05 per right at any time before a 20% position has been acquired and under certain circumstances thereafter, including in connection with certain transactions not involving a 20% stockholder. If, after the rights became exercisable Co. were to be acquired through a merger or other business combination transaction, each right would permit its holder to purchase stock of the acquiring company having a value of \$380 for the right's exercise price of \$190. In addition, if any person were to acquire 25% or more of the voting power of Co. or under certain circumstances, each right not owned by the 25% stockholder would permit the purchase of \$380 of Co. com. or pfd. stock for \$190. The dividend distribution was made on July 24, 1986 to shareholder of record July 24, 1986. The rights will expire on July 24, 1996. Because the rights will not be initially exercisable and will automatically trade with the com. stock, right certificates will not be provided at this time. The rights distribution is not initially taxable to stockholders.

## BURLINGTON NORTHERN RAILROAD COMPANY

(Wholly owned by Burlington Northern Inc.)

### HISTORY

Incorporated in Delaware Jan. 13, 1961 as Great Northern Pacific & Burlington Lines, Inc.; name changed to Burlington Northern, Inc. in Mar. 1970; present name adopted May 14, 1981.

On Mar. 2, 1970 merged Northern Pacific Railway Co., Great Northern Railway Co., Chicago, Burlington & Quincy Railroad Co. and Pacific Coast R.R. Co. Shareholders of constituent companies exchanged stock on following basis:

Shareholders of Northern Pacific Railway Co. received common stock on a share-for-share basis.

Shareholders of Great Northern Railway Co. received one common share and 1/2 share 5 1/2% cumulative preferred for each common share.

Shareholders of Chicago, Burlington & Quincy Railroad Co. received 3/4 common shares for each common share (excluding shares held by Northern Pacific Railway Co. and Great Northern Railway Co., no securities issued in respect of these shares which amounted to 97.18% of outstanding stock).

All outstanding stock of Pacific Coast R.R. Co. was owned by Great Northern Railway Co. and no securities were issued in respect of these shares.

On June 1, 1970 formed Western Fruit Express Co. through merger of former Great Northern Railway Co. subsidiary Western Fruit Express Co. and Burlington Refrigerator Express Co.

For corporate history of constituent companies, see Moody's 1970 Transportation Manual.

In 1971 merged subsidiaries Burlington Truck Lines with Northern Pacific Transport Co., forming BN Transport Inc.

In Nov. 1973, Co.'s Plum Creek Lumber Co. acquired Arden Lumber Co.

In 1974 formed BNL Development Corp. subsidiary, to coordinate Co.'s real estate operations.

In Jan. 1975 sold its 50% interest in Oregon California and Eastern Railway Co. to Weyerhaeuser Co.

In 1977, at Superior, Wis., a \$67.4 million taconite-handling terminal was completed and put into

operation. It is being operated by a subsidiary, Burlington Northern Dock Corp.

**Merger History:** Informal merger conversations in 1955, among corporate officers of the companies involved, led to a study in 1956 to determine the benefits of consolidation.

The overwhelming economic advantages of consolidation, established by the study, warranted a decision to merge and negotiations as to terms of stock exchange ratios were reached.

Formal merger agreements were signed in Jan., 1961, and approved by Great Northern and Northern Pacific stockholders later that year. Application for approval of the merger was filed with the ICC on Feb. 17, 1961. The first hearing before a commission examiner was held in Oct., 1961. Subsequent hearings were held in a number of cities in the territories of the companies involved. The last hearing was concluded in July, 1962. Two years later, the hearing examiner recommended that the merger be approved. This was followed, however, by oral arguments before the 11-member ICC and on Mar. 31, 1966, by a six to five decision, the agency denied the application to merge. Reasons given for the denial were effects the transaction would have on employees and reduction in railroad competition which it was thought might result.

The railroads petitioned for reconsideration on the grounds that they had reached agreement with or would accommodate the demands of the employee organizations and the principally affected railroads. Proceedings were reopened by commission for further hearing and oral argument and in Dec., 1967, commission approved the merger, subject to conditions relating to protection of employees, other railroads and providing certain routing advantages to shippers.

Consummation of the merger, set for May 10, 1968, was interrupted by suits against the ICC in Federal District Courts in Washington, D.C., New York City, and Seattle. Sought in each case, was a temporary restraining order suspending commission's approval of the merger. The three presiding judges who heard arguments on May 9, 1968, refused to interfere. Department of Justice's attorneys then interceded directly with the then Chief Justice of the United States who, on May 10, 1968, signed an order delaying the merger.

The case was further argued in July, 1968, before a special three-judge Federal District Court and decided in favor of commission and railroads by unanimous vote of the court.

An appeal to the United States Supreme Court was argued in Oct., 1969, and on Feb. 2, 1970, Supreme Court, in a unanimous decision, affirmed the judgment of the district court, thereby permitting consummation of the merger.

The actual corporate weld, fusing the constituent companies into a single entity, was accomplished on Mar. 2, 1970.

**Colorado & Southern Share Exchange Offer:** In June, 1972, Burlington Northern offered to exchange 187,310 Co. com. shs. for the outstg. shs. of Colorado & Southern Ry. Co. (see appended statement) which it does not already own, subject to ICC approval. Terms call for an exchange of 1.75 Co. com. shs. for each sh. of C&S 1st pfd.; 1.5 Co. com. shs. for each sh. of C&S 2nd pfd.; and one Co. com. sh. for each C&S com. sh. Offer expired Aug. 11, 1972.

In July 1972, ICC authorized Burlington Northern to issue 187,310 com. shs. in exchange for certain shs. of its subsidiary, Colorado & Southern Railway Co. Purpose of exchange, ICC said, is to

nable Co. to acquire 80% of its subsidiary's outstanding stock to enable it to file a consolidated Federal income tax return, thereby obtaining certain tax advantages.

In Feb., 1981, Burlington Northern increased its ownership in Colorado & Southern Railway Co. to 12.57% from 91.06%. Effective Dec. 31, 1981 Burlington Northern acquired the remaining shares bringing ownership to 100% and merged the Co.

**Merger of St. Louis San Francisco Ry. Co.:** On Nov. 21, 1980, Co. and St. Louis-San Francisco Railway Co. merged under a merger agreement dated Nov. 15, 1977, by exchanging 1.9 shares of Co. common stock plus one-half share of \$2.125 no par preferred stock, \$25 redemption value for each share of Frisco common stock outstanding. The cost of net assets acquired was \$137,599,000 and included the issuance of 5,058,069 shares of common stock and 1,331,071 shares of preferred stock. The acquisition has been accounted for as a purchase and results of operations of Frisco are included in the financial statements from Dec. 1,

1980, the effective date of merger for accounting purposes. The purchase price has been allocated to the acquired net assets based on their relative fair values.

The merger created a 29,300-mile rail system stretching from ports on the Pacific Coast in Washington and Oregon, through the timber and mining regions of the Northern Tier States and the farming areas of the Midwest and as far south as Pensacola, Fla.

**Merger of Fort Worth and Denver Railway:** On Dec. 31, 1982, The Fort Worth and Denver Railway, a wholly-owned subsidiary of Burlington Northern Railroad Company merged into Burlington Railroad Company.

#### OPERATING TERRITORY

Burlington Northern operates one of the largest railroad systems in the United States. Its lines extend (1) westward and northward from Chicago

to Denver and the Pacific Northwest, (2) through The Colorado and Southern Railway Co. (C&S), over 100% of the outstanding voting stock of which is owned by Burlington Northern, and the Fort Worth and Denver Railway Co. (FW&D), a wholly-owned subsidiary of the C&S, to the Gulf of Mexico at Houston and Galveston via Denver, and, (3) through the November 21, 1980 merger with Frisco, from Chicago through St. Louis to interchange connections with the FW&D and southeasterly to Florida. The principal cities served include Chicago, Minneapolis-St. Paul, Fargo-Moorhead, Billings, Spokane, Seattle, Portland, St. Louis, Kansas City, Des Moines, Omaha, Lincoln, Cheyenne, Denver, Fort Worth, Dallas, Houston, Galveston, Tulsa, Wichita, Springfield (Missouri), Memphis, Birmingham, Mobile and Pensacola. As of Dec. 31, 1987, the system consisted of 25,639 miles of track operated.

By type of operation:	Miles of Road	Miles of Second Main Track	Miles of all Other Main Track	Miles of Passing Crossovers and Turnouts	Miles of Way Switching Tracks	Miles of Yard Switching Tracks	Total
Owned.....	20,579	1,851	46	2,127	1,998	3,983	30,584
Jointly owned.....	447	35	0	43	58	271	854
Owned by proprietary cos.....	4	0	0	0	1	5	10
Operated under lease for fixed sum.....	387	2	0	44	31	30	494
Operated under contract for contingent rent.....	659	0	0	32	57	15	763
Trackage rights.....	1,400	275	2	88	67	156	1,988
Grand Total.....	23,476	2,163	48	2,334	2,212	4,460	34,693

#### RAILROAD SUBSIDIARIES

The Belt Railway of Chicago (8.33%)  
 Burlington Northern Dock Corp.  
 Burlington Northern (Manitoba) Limited  
 Burlington Northern Railroad Properties, Inc.  
 Burlington Northern Worldwide, Inc.  
 Camas Prairie Railroad Co. (50%)  
 Clarkland Royalty Inc.  
 Davenport, Rock Island and North Western Railway Co. (50%)  
 The Denver Union Terminal Railway Co. (33.33%)  
 Electro Northern, Inc.  
 Houston Belt & Terminal Railway Co. (12.5%)  
 Iowa Transfer Ry. Co. (25%)  
 Kansas City Terminal Railway Company (16.67%)  
 Keokuk Union Depot Company (40%)  
 Longview Switching Co. (50%)  
 M T Properties, Inc. (37.77%)  
 Paducah & Illinois R.R. Co. (33.33%)  
 Portland Terminal R.R. Co. (40%)  
 Terminal R.R. Assoc. of St. Louis (12.5%)  
 Trailer Train Co. (9.76%)  
 Western Fruit Express Co.  
 The Wichita Union Terminal Ry. (33.33%)  
 Winona Bridge Railway Co.  
 Northern Radio Ltd.

#### BUSINESS

Co.'s principal business activity is railroad transportation and related industrial developments properties. Co. also continues ownership of certain natural resource properties.

#### PROPERTY IMPROVEMENTS

In 1987, gross capital expenditures for road and equipment were \$344,717,000. During the period

1985-87 such expenditures for, and retirements of, road and equipment were (in thousands of \$):

	1987	1986	1985
Road & roadway struc.	248,210	324,239	545,892
Equipment.....	27,562	24,690	100,486
Orig. cost of equip. leased.....	68,945	14,587	33,041
Total.....	344,717	363,516	679,419

During the period 1985-87, retirements of transportation property totaled approximately \$847 million.

#### MANAGEMENT

##### Officers (Elective)

D.W. Gaskins, Jr., Pres., Chief Exec. Off. & Chief Oper. Off.  
 E.W. Burke, Senior Vice President—Law & Govt. Affairs, Sec.  
 M.L. McManus, Senior Vice-Pres.—Fin. & Treas.

##### Officers (Appointive)

J.R. Galassi, Exec. Vice-Pres., Oper.  
 W.E. Greenwood, Exec. Vice-Pres., Mktg. & Sales  
 J.B. Dagnon, Senior Vice-Pres., Labor Rel.  
 John Tierney, Senior Vice-Pres., Materials & Systems  
 D.J. Babb, Vice-Pres. & General Counsel  
 D.E. Baker, Vice-Pres., Denver Reg.  
 R.R. Carter, Vice-Pres., Agricultural Commodities  
 F.J. Coyne, Vice-Pres., Human Resources  
 A.M. Fitzwater, Vice-Pres., Govt. Affairs  
 T.D. Flood, Vice-Pres., Auto Mktg.  
 W.W. Francis, Vice-Pres., Seattle Reg.  
 K.L. Hagan, Vice-Pres., Industrial Prod.  
 J.T. Hall, Vice-Pres., Bus. Devel.  
 E.H. Harrison, Vice-Pres., Chicago Reg.  
 W.A. Hutton, Vice-Pres., Twin Cities Reg.  
 D.W. Henderson, Vice-Pres., Tech., Engin. & Maint.  
 J.C. Hilly, Vice-Pres., Labor Relations Planning

R.S. Howery, Vice-Pres., Springfield Reg.  
 R.S. Ingram, Vice-Pres., Intermodal  
 R.V. Jabens, Vice-Pres., Oper. Plan.  
 T.V. Mears, Chief Med. Off.  
 N.P. Moros, Vice-Pres., Coal & Taconite Marketing  
 R.A. Muellner, Vice-Pres., Int'l Sales & Mkt.  
 R.J. Schriber, Vice-Pres. & General Counsel  
 G.D. Schlaeger, Vice-Pres., Forest Prod.  
 D.W. Scott, Vice-Pres., Marketing  
 D.S. Snyder, Vice-Pres.—Controller  
 B.T. Strom, Vice-Pres., Information Sys. Serv.  
 S.S. White, Vice-Pres., Food & Consumer Prod.  
 S.B. O'Connor, Asst. Sec.  
 B.A. Edwards, Asst. Sec.  
 L.S. Leland, Asst. Sec.  
 F.C. Green, Asst. Treas.  
 J.E. Slaughter, Asst. Treas.

##### Officers (Appointive, with Limited Authority)

G.E. Howison, Vice-Pres.  
 D.D. Leland, Vice-Pres., Timber and Land  
 B.B. Ruehr, Vice-Pres.  
 F.C. Green, Vice-Pres.  
 J.E. Slaughter, Vice-Pres.  
 J.H. Ilkka, Vice-Pres.  
 J.W. Becker, Asst. Sec.  
 I.E. Kercher, Asst. Sec.  
 S.N. Lyman, Asst. Sec.  
 A.D. Wells, Asst. Sec.

##### Directors (for a term ending in May 1988)

Gerald Grinstein  
 Darius W. Gaskins, Jr.  
 William E. Greenwood

No. of Employees: 1987, average 32,809.

**Railroad General Office:** 3800 Continental Plaza, 777 Main St., Ft. Worth, TX 76102. Tel.: (612) 298-7461.

#### MILEAGE — Burlington Northern Railroad Company, Dec. 31, 1987

##### MILEAGE BY STATES:

State:	Line Owned	Line of Proprietary Companies	Operated Under Lease	Operated Under Contract	Trackage Rights	Total Mileage Operated
Alabama.....	459	.....	.....	.....	32	491
Arkansas.....	208	.....	.....	.....	.....	208
California.....	99	.....	.....	.....	1	100
Colorado.....	589	.....	.....	.....	125	714
Florida.....	44	.....	.....	.....	.....	44
Idaho.....	368	.....	.....	.....	1	369
Illinois.....	1,076	.....	.....	.....	109	1,185
Iowa.....	540	.....	100	6	66	712
Kansas.....	567	.....	.....	.....	41	608
Kentucky.....	.....	.....	.....	.....	13	13
Minnesota.....	1,899	.....	36	.....	299	2,234
Mississippi.....	179	.....	.....	.....	.....	179
Missouri.....	1,584	.....	.....	.....	36	1,620
Montana.....	2,211	.....	.....	78	34	2,323
Nebraska.....	2,325	.....	.....	.....	2	2,327
New Mexico.....	83	.....	.....	.....	.....	83
North Dakota.....	2,355	.....	.....	103	55	2,513
Oklahoma.....	801	.....	.....	.....	61	862
Oregon.....	518	.....	.....	.....	129	647
South Dakota.....	298	.....	203	461	13	975
Tennessee.....	16	.....	.....	.....	.....	16
Texas.....	995	.....	.....	11	254	1,260
Washington.....	2,300	.....	48	.....	213	2,561
Wisconsin.....	269	.....	.....	.....	7	276
Minnesota.....	913	.....	.....	.....	53	966
.....	108	.....	.....	.....	9	117
.....	.....	.....	.....	.....	69	73



## BALANCE SHEETS (Cont'd):

	1987	1986	1985	1984	1983	1982	1981
Equipment .....	47,877	29,391	98,676	51,959	95,965	30,397	93,884
Construction in progress .....	(18,482)	(19,385)	(39,662)	20,269	57,098	cr12,230	cr53,560
Total .....	274,514	349,505	638,951	619,087	615,089	200,761	273,464
CREDITS FOR PROPERTY RETIRED							
Road .....	85,471	799,078	270,194	152,215	97,416	41,018	35,782
Equipment .....	77,963	144,632	110,911	89,522	171,642	96,490	90,772
General expenditures .....						2	
Total .....	163,434	943,710	381,105	241,737	269,058	137,510	126,554
NET CHANGE .....	111,080	(594,205)	257,846	377,350	346,031	63,251	146,910

See footnote 2 under Income Account as reported to ICC, above.

Restated for ratable depreciation of track structure accounting.

## Securities Owned, as of Dec. 31, 1987

## Investments &amp; Advances Affiliated Companies

Class No.	Issuing Company (% of control):	Total book value	Dividends or Interest Amt. credited to income
A-1	Belt Railway Co. of Chgo. (8.33)	\$337,000	
A-1	Burlington Northern Dock Corp. (100)	1,000	
A-1	Camas Prairie R.R. Co. (50)	50,000	
A-1	Davpt. Rk. Is. & N.W. Ry. Co. (50)	1,748,000	
A-1	Denver Union Term. Ry. Co. (33.33)	10,000	
A-1	Houston Belt & Terminal Ry. Co. (12.50)		
A-1	Iowa Transfer Ry. Co. (25)	16,000	
A-1	Kans. City Term. Ry. Co. (16.66)	100,000	
A-1	Keokuk Union Depot Co. (40)	8,000	
A-1	Lake Supr. Term. & Tfr. Ry. Co. (66.67)	340,000	
A-1	Longview Switching Co. (50)	2,000	
A-1	M T Properties, Inc. (37.77)	274,000	
A-1	Paducah & Ill. R.R. Co. (33.33)	3,000	
A-1	Portland Terminal R.R. Co. (40)	1,880,000	\$3,434,000
A-1	Terminal R.R. Assn. of St. Louis (14.28)		
A-1	Trailer Train Co. (10.52)	4,811,000	
A-1	Western Fruit Express Co. (100)	6,900,000	
A-1	Wichita Union Term. Ry. Co. (33.33)	24,000	
A-1	Winona Bridge Ry. Co. (100)	116,000	
Total Class A-1		\$16,620,000	\$3,434,000
A-3	Burlington Northern R.R. Properties, Inc. (100)	31,431,000	268,000
A-3	Clarkland Royalty Inc. (100)	73,000	
Total Class A		\$48,124,000	\$3,702,000
D-1	Clarkland Royalty Inc.	117,000	
D-1	Terminal Railroad Assn. of St. Louis	1,928,000	225,000
D-1	Trailer Train Co.		\$15,000
Total Class D		\$2,045,000	\$240,000
E-1	Belt Railway Co. of Chicago	\$3,446,000	\$158,000
E-1	Burlington Northern Dock Corp.	5,671,000	
E-1	Camas Prairie R.R. Co.	250,000	15,000
E-1	Davpt. Rk. Is. & N.W. Ry. Co.	2,410,000	
E-1	Denver Union Terminal Ry. Co.	589,000	
E-1	Houston Belt & Terminal Ry. Co.	1,786,000	
E-1	Kansas City Terminal Ry. Co.	6,606,000	
E-1	Longview Switching Co.	63,000	
E-1	Paducah & Illinois R.R. Co.	1,228,000	57,000
E-1	Portland Terminal Railroad Assn.	91,000	
E-1	Terminal Railroad Assoc. of St. Louis	170,000	
E-1	Wichita Term. Assn.	2,000	
E-1	Wichita Union Term. Ry. Co.	416,000	
Total Class E-1		\$22,728,000	\$230,000
E-3	Burlington Northern R.R. Properties, Inc.	606,000	
Total Class E		\$23,334,000	\$230,000
Total invest. and adv. in affil. cos.		\$73,503,000	\$4,172,000

## Investments in Common Stocks of Affiliated Companies

Issuing Company	Total Book Value
Burlington Northern Dock Corp.	\$ (1,000)
Burlington Northern R.R. Prop. Inc.	940,000
Clarkland Royalty Inc.	46,000
Davenport, Rock Is. & N.W. Ry. Co.	87,000
Denver Union Term. Ry.	(38,000)
Iowa Transfer Ry. Co.	19,000
Keokuk Union Depot Co.	32,000
Minnesota Transfer Ry. Co.	985,000
Paducah & Ill. R.R. Co.	(86,000)
Portland Terminal R.R. Co.	64,000
Western Fruit Express Co.	1,726,000
Winona Bridge Ry. Co.	286,000
Rounding difference	3
Total invest. in com. stk. of affil. cos.	\$4,063,000

## LONG TERM DEBT — Maturities, Descriptions and Ratings

## Chronological Record of Bond Maturities to Dec. 31, 1996

1988		1991		1994	
Equipment oblig.	\$70,038,000	Equipment oblig.	\$34,127,000	Equipment oblig.	\$18,869,000
Funded debt	6,500,000	Funded debt	13,006,000	Funded debt	164,200,000
Other debt	355,000	Other debt	235,000	Capitalized leases	7,249,000
Capitalized leases	13,195,000	Capitalized leases	8,543,000	Total	\$190,318,000
Total	\$90,088,000	Total	\$55,911,000		
1988		1992		1995	
Equipment oblig.	\$97,780,000	Equipment oblig.	\$28,415,000	Equipment oblig.	\$15,715,000
Funded debt	13,125,000	Funded debt	13,070,000	Funded debt	14,265,000
Other debt	220,000	Other debt	3,240,000	Capitalized leases	7,595,000
			6,235,000	Total	\$37,575,000



Current liabilities	18,850	2,000	574
(Current maturities of lt.-tm. debt)	1,041	2,000	2,424
Accounts payable	2,939	1,074	1,049
Accrued wages & vacation pay	3,342	2,204	2,046
Accrued liabilities			

## MOODY'S TRANSPORTATION MANUAL

879

Authors: Leslie W. Scruggs, CPA.

Annual Meeting: In March, at West Point, Ga.

No. of Employees: Dec. 31, 1984, 10.

Office: West Point, GA 31833. Tel: (404)645-4341.

Income Account, years ended Dec. 31:

	1984	1983
Oper. revenues	\$587,543	\$667,294
Oper. expenses	434,985	442,502
Net oper. rev.	152,558	224,792
Ry. tax act., etc.	80,098	72,452
Rent, etc.	64,795	42,431
Net ry. oper. inc.	1,165	10,038
Other inc., net	63,389	50,937
Total	73,554	120,945
Income taxes	15,514	35,300
Net income	58,040	85,745

Balance Sheet, as of Dec. 31:

	1984	1983
Cash	\$118,754	\$180,119
Receivables	168,980	65,851
Mail & suppl.	97,508	121,239
Prepayments	700	5,591
Total	\$386,942	\$372,800
Liabilities		
Traffic, etc. bal. pay.	\$114,257	\$108,599
Accounts	64,490	6,210
Prepayments	25,523	20,501
Total	\$204,270	\$235,310
Net current assets	\$182,672	\$137,490

After deduct. \$544,518 (1984), \$530,503 (1983) depreciation.

Loans to West Point Pepperell, Inc.

Capital stock: 1. Chattanooga Valley Railway Co. stock, par \$100.

AUTHORIZED—And outstanding, Dec. 31, 1984, 1,100 shares; par \$100.

OWNERSHIP—All owned by West Point Pepperell, Inc. (see Moody's Industrial Manual).

DIVIDENDS PAID—

1982—\$10.00 1981—\$4.00 1980—\$4.00 1979—\$4.00 1978—\$4.00 1977—\$4.00 1976—\$4.00 1975—\$4.00 1974—\$4.00 1973—\$4.00 1972—\$4.00 1971—\$4.00 1970—\$4.00 1969—\$4.00 1968—\$4.00 1967—\$4.00 1966—\$4.00 1965—\$4.00 1964—\$4.00 1963—\$4.00 1962—\$4.00 1961—\$4.00 1960—\$4.00 1959—\$4.00 1958—\$4.00 1957—\$4.00 1956—\$4.00 1955—\$4.00 1954—\$4.00 1953—\$4.00 1952—\$4.00 1951—\$4.00 1950—\$4.00 1949—\$4.00 1948—\$4.00 1947—\$4.00 1946—\$4.00 1945—\$4.00 1944—\$4.00 1943—\$4.00 1942—\$4.00 1941—\$4.00 1940—\$4.00 1939—\$4.00 1938—\$4.00 1937—\$4.00 1936—\$4.00 1935—\$4.00 1934—\$4.00 1933—\$4.00 1932—\$4.00 1931—\$4.00 1930—\$4.00 1929—\$4.00 1928—\$4.00 1927—\$4.00 1926—\$4.00 1925—\$4.00 1924—\$4.00 1923—\$4.00 1922—\$4.00 1921—\$4.00 1920—\$4.00 1919—\$4.00 1918—\$4.00 1917—\$4.00 1916—\$4.00 1915—\$4.00 1914—\$4.00 1913—\$4.00 1912—\$4.00 1911—\$4.00 1910—\$4.00 1909—\$4.00 1908—\$4.00 1907—\$4.00 1906—\$4.00 1905—\$4.00 1904—\$4.00 1903—\$4.00 1902—\$4.00 1901—\$4.00 1900—\$4.00 1899—\$4.00 1898—\$4.00 1897—\$4.00 1896—\$4.00 1895—\$4.00 1894—\$4.00 1893—\$4.00 1892—\$4.00 1891—\$4.00 1890—\$4.00 1889—\$4.00 1888—\$4.00 1887—\$4.00 1886—\$4.00 1885—\$4.00 1884—\$4.00 1883—\$4.00 1882—\$4.00 1881—\$4.00 1880—\$4.00 1879—\$4.00 1878—\$4.00 1877—\$4.00 1876—\$4.00 1875—\$4.00 1874—\$4.00 1873—\$4.00 1872—\$4.00 1871—\$4.00 1870—\$4.00 1869—\$4.00 1868—\$4.00 1867—\$4.00 1866—\$4.00 1865—\$4.00 1864—\$4.00 1863—\$4.00 1862—\$4.00 1861—\$4.00 1860—\$4.00 1859—\$4.00 1858—\$4.00 1857—\$4.00 1856—\$4.00 1855—\$4.00 1854—\$4.00 1853—\$4.00 1852—\$4.00 1851—\$4.00 1850—\$4.00 1849—\$4.00 1848—\$4.00 1847—\$4.00 1846—\$4.00 1845—\$4.00 1844—\$4.00 1843—\$4.00 1842—\$4.00 1841—\$4.00 1840—\$4.00 1839—\$4.00 1838—\$4.00 1837—\$4.00 1836—\$4.00 1835—\$4.00 1834—\$4.00 1833—\$4.00 1832—\$4.00 1831—\$4.00 1830—\$4.00 1829—\$4.00 1828—\$4.00 1827—\$4.00 1826—\$4.00 1825—\$4.00 1824—\$4.00 1823—\$4.00 1822—\$4.00 1821—\$4.00 1820—\$4.00 1819—\$4.00 1818—\$4.00 1817—\$4.00 1816—\$4.00 1815—\$4.00 1814—\$4.00 1813—\$4.00 1812—\$4.00 1811—\$4.00 1810—\$4.00 1809—\$4.00 1808—\$4.00 1807—\$4.00 1806—\$4.00 1805—\$4.00 1804—\$4.00 1803—\$4.00 1802—\$4.00 1801—\$4.00 1800—\$4.00 1799—\$4.00 1798—\$4.00 1797—\$4.00 1796—\$4.00 1795—\$4.00 1794—\$4.00 1793—\$4.00 1792—\$4.00 1791—\$4.00 1790—\$4.00 1789—\$4.00 1788—\$4.00 1787—\$4.00 1786—\$4.00 1785—\$4.00 1784—\$4.00 1783—\$4.00 1782—\$4.00 1781—\$4.00 1780—\$4.00 1779—\$4.00 1778—\$4.00 1777—\$4.00 1776—\$4.00 1775—\$4.00 1774—\$4.00 1773—\$4.00 1772—\$4.00 1771—\$4.00 1770—\$4.00 1769—\$4.00 1768—\$4.00 1767—\$4.00 1766—\$4.00 1765—\$4.00 1764—\$4.00 1763—\$4.00 1762—\$4.00 1761—\$4.00 1760—\$4.00 1759—\$4.00 1758—\$4.00 1757—\$4.00 1756—\$4.00 1755—\$4.00 1754—\$4.00 1753—\$4.00 1752—\$4.00 1751—\$4.00 1750—\$4.00 1749—\$4.00 1748—\$4.00 1747—\$4.00 1746—\$4.00 1745—\$4.00 1744—\$4.00 1743—\$4.00 1742—\$4.00 1741—\$4.00 1740—\$4.00 1739—\$4.00 1738—\$4.00 1737—\$4.00 1736—\$4.00 1735—\$4.00 1734—\$4.00 1733—\$4.00 1732—\$4.00 1731—\$4.00 1730—\$4.00 1729—\$4.00 1728—\$4.00 1727—\$4.00 1726—\$4.00 1725—\$4.00 1724—\$4.00 1723—\$4.00 1722—\$4.00 1721—\$4.00 1720—\$4.00 1719—\$4.00 1718—\$4.00 1717—\$4.00 1716—\$4.00 1715—\$4.00 1714—\$4.00 1713—\$4.00 1712—\$4.00 1711—\$4.00 1710—\$4.00 1709—\$4.00 1708—\$4.00 1707—\$4.00 1706—\$4.00 1705—\$4.00 1704—\$4.00 1703—\$4.00 1702—\$4.00 1701—\$4.00 1700—\$4.00 1699—\$4.00 1698—\$4.00 1697—\$4.00 1696—\$4.00 1695—\$4.00 1694—\$4.00 1693—\$4.00 1692—\$4.00 1691—\$4.00 1690—\$4.00 1689—\$4.00 1688—\$4.00 1687—\$4.00 1686—\$4.00 1685—\$4.00 1684—\$4.00 1683—\$4.00 1682—\$4.00 1681—\$4.00 1680—\$4.00 1679—\$4.00 1678—\$4.00 1677—\$4.00 1676—\$4.00 1675—\$4.00 1674—\$4.00 1673—\$4.00 1672—\$4.00 1671—\$4.00 1670—\$4.00 1669—\$4.00 1668—\$4.00 1667—\$4.00 1666—\$4.00 1665—\$4.00 1664—\$4.00 1663—\$4.00 1662—\$4.00 1661—\$4.00 1660—\$4.00 1659—\$4.00 1658—\$4.00 1657—\$4.00 1656—\$4.00 1655—\$4.00 1654—\$4.00 1653—\$4.00 1652—\$4.00 1651—\$4.00 1650—\$4.00 1649—\$4.00 1648—\$4.00 1647—\$4.00 1646—\$4.00 1645—\$4.00 1644—\$4.00 1643—\$4.00 1642—\$4.00 1641—\$4.00 1640—\$4.00 1639—\$4.00 1638—\$4.00 1637—\$4.00 1636—\$4.00 1635—\$4.00 1634—\$4.00 1633—\$4.00 1632—\$4.00 1631—\$4.00 1630—\$4.00 1629—\$4.00 1628—\$4.00 1627—\$4.00 1626—\$4.00 1625—\$4.00 1624—\$4.00 1623—\$4.00 1622—\$4.00 1621—\$4.00 1620—\$4.00 1619—\$4.00 1618—\$4.00 1617—\$4.00 1616—\$4.00 1615—\$4.00 1614—\$4.00 1613—\$4.00 1612—\$4.00 1611—\$4.00 1610—\$4.00 1609—\$4.00 1608—\$4.00 1607—\$4.00 1606—\$4.00 1605—\$4.00 1604—\$4.00 1603—\$4.00 1602—\$4.00 1601—\$4.00 1600—\$4.00 1599—\$4.00 1598—\$4.00 1597—\$4.00 1596—\$4.00 1595—\$4.00 1594—\$4.00 1593—\$4.00 1592—\$4.00 1591—\$4.00 1590—\$4.00 1589—\$4.00 1588—\$4.00 1587—\$4.00 1586—\$4.00 1585—\$4.00 1584—\$4.00 1583—\$4.00 1582—\$4.00 1581—\$4.00 1580—\$4.00 1579—\$4.00 1578—\$4.00 1577—\$4.00 1576—\$4.00 1575—\$4.00 1574—\$4.00 1573—\$4.00 1572—\$4.00 1571—\$4.00 1570—\$4.00 1569—\$4.00 1568—\$4.00 1567—\$4.00 1566—\$4.00 1565—\$4.00 1564—\$4.00 1563—\$4.00 1562—\$4.00 1561—\$4.00 1560—\$4.00 1559—\$4.00 1558—\$4.00 1557—\$4.00 1556—\$4.00 1555—\$4.00 1554—\$4.00 1553—\$4.00 1552—\$4.00 1551—\$4.00 1550—\$4.00 1549—\$4.00 1548—\$4.00 1547—\$4.00 1546—\$4.00 1545—\$4.00 1544—\$4.00 1543—\$4.00 1542—\$4.00 1541—\$4.00 1540—\$4.00 1539—\$4.00 1538—\$4.00 1537—\$4.00 1536—\$4.00 1535—\$4.00 1534—\$4.00 1533—\$4.00 1532—\$4.00 1531—\$4.00 1530—\$4.00 1529—\$4.00 1528—\$4.00 1527—\$4.00 1526—\$4.00 1525—\$4.00 1524—\$4.00 1523—\$4.00 1522—\$4.00 1521—\$4.00 1520—\$4.00 1519—\$4.00 1518—\$4.00 1517—\$4.00 1516—\$4.00 1515—\$4.00 1514—\$4.00 1513—\$4.00 1512—\$4.00 1511—\$4.00 1510—\$4.00 1509—\$4.00 1508—\$4.00 1507—\$4.00 1506—\$4.00 1505—\$4.00 1504—\$4.00 1503—\$4.00 1502—\$4.00 1501—\$4.00 1500—\$4.00 1499—\$4.00 1498—\$4.00 1497—\$4.00 1496—\$4.00 1495—\$4.00 1494—\$4.00 1493—\$4.00 1492—\$4.00 1491—\$4.00 1490—\$4.00 1489—\$4.00 1488—\$4.00 1487—\$4.00 1486—\$4.00 1485—\$4.00 1484—\$4.00 1483—\$4.00 1482—\$4.00 1481—\$4.00 1480—\$4.00 1479—\$4.00 1478—\$4.00 1477—\$4.00 1476—\$4.00 1475—\$4.00 1474—\$4.00 1473—\$4.00 1472—\$4.00 1471—\$4.00 1470—\$4.00 1469—\$4.00 1468—\$4.00 1467—\$4.00 1466—\$4.00 1465—\$4.00 1464—\$4.00 1463—\$4.00 1462—\$4.00 1461—\$4.00 1460—\$4.00 1459—\$4.00 1458—\$4.00 1457—\$4.00 1456—\$4.00 1455—\$4.00 1454—\$4.00 1453—\$4.00 1452—\$4.00 1451—\$4.00 1450—\$4.00 1449—\$4.00 1448—\$4.00 1447—\$4.00 1446—\$4.00 1445—\$4.00 1444—\$4.00 1443—\$4.00 1442—\$4.00 1441—\$4.00 1440—\$4.00 1439—\$4.00 1438—\$4.00 1437—\$4.00 1436—\$4.00 1435—\$4.00 1434—\$4.00 1433—\$4.00 1432—\$4.00 1431—\$4.00 1430—\$4.00 1429—\$4.00 1428—\$4.00 1427—\$4.00 1426—\$4.00 1425—\$4.00 1424—\$4.00 1423—\$4.00 1422—\$4.00 1421—\$4.00 1420—\$4.00 1419—\$4.00 1418—\$4.00 1417—\$4.00 1416—\$4.00 1415—\$4.00 1414—\$4.00 1413—\$4.00 1412—\$4.00 1411—\$4.00 1410—\$4.00 1409—\$4.00 1408—\$4.00 1407—\$4.00 1406—\$4.00 1405—\$4.00 1404—\$4.00 1403—\$4.00 1402—\$4.00 1401—\$4.00 1400—\$4.00 1399—\$4.00 1398—\$4.00 1397—\$4.00 1396—\$4.00 1395—\$4.00 1394—\$4.00 1393—\$4.00 1392—\$4.00 1391—\$4.00 1390—\$4.00 1389—\$4.00 1388—\$4.00 1387—\$4.00 1386—\$4.00 1385—\$4.00 1384—\$4.00 1383—\$4.00 1382—\$4.00 1381—\$4.00 1380—\$4.00 1379—\$4.00 1378—\$4.00 1377—\$4.00 1376—\$4.00 1375—\$4.00 1374—\$4.00 1373—\$4.00 1372—\$4.00 1371—\$4.00 1370—\$4.00 1369—\$4.00 1368—\$4.00 1367—\$4.00 1366—\$4.00 1365—\$4.00 1364—\$4.00 1363—\$4.00 1362—\$4.00 1361—\$4.00 1360—\$4.00 1359—\$4.00 1358—\$4.00 1357—\$4.00 1356—\$4.00 1355—\$4.00 1354—\$4.00 1353—\$4.00 1352—\$4.00 1351—\$4.00 1350—\$4.00 1349—\$4.00 1348—\$4.00 1347—\$4.00 1346—\$4.00 1345—\$4.00 1344—\$4.00 1343—\$4.00 1342—\$4.00 1341—\$4.00 1340—\$4.00 1339—\$4.00 1338—\$4.00 1337—\$4.00 1336—\$4.00 1335—\$4.00 1334—\$4.00 1333—\$4.00 1332—\$4.00 1331—\$4.00 1330—\$4.00 1329—\$4.00 1328—\$4.00 1327—\$4.00 1326—\$4.00 1325—\$4.00 1324—\$4.00 1323—\$4.00 1322—\$4.00 1321—\$4.00 1320—\$4.00 1319—\$4.00 1318—\$4.00 1317—\$4.00 1316—\$4.00 1315—\$4.00 1314—\$4.00 1313—\$4.00 1312—\$4.00 1311—\$4.00 1310—\$4.00 1309—\$4.00 1308—\$4.00 1307—\$4.00 1306—\$4.00 1305—\$4.00 1304—\$4.00 1303—\$4.00 1302—\$4.00 1301—\$4.00 1300—\$4.00 1299—\$4.00 1298—\$4.00 1297—\$4.00 1296—\$4.00 1295—\$4.00 1294—\$4.00 1293—\$4.00 1292—\$4.00 1291—\$4.00 1290—\$4.00 1289—\$4.00 1288—\$4.00 1287—\$4.00 1286—\$4.00 1285—\$4.00 1284—\$4.00 1283—\$4.00 1282—\$4.00 1281—\$4.00 1280—\$4.00 1279—\$4.00 1278—\$4.00 1277—\$4.00 1276—\$4.00 1275—\$4.00 1274—\$4.00 1273—\$4.00 1272—\$4.00 1271—\$4.00 1270—\$4.00 1269—\$4.00 1268—\$4.00 1267—\$4.00 1266—\$4.00 1265—\$4.00 1264—\$4.00 1263—\$4.00 1262—\$4.00 1261—\$4.00 1260—\$4.00 1259—\$4.00 1258—\$4.00 1257—\$4.00 1256—\$4.00 1255—\$4.00 1254—\$4.00 1253—\$4.00 1252—\$4.00 1251—\$4.00 1250—\$4.00 1249—\$4.00 1248—\$4.00 1247—\$4.00 1246—\$4.00 1245—\$4.00 1244—\$4.00 1243—\$4.00 1242—\$4.00 1241—\$4.00 1240—\$4.00 1239—\$4.00 1238—\$4.00 1237—\$4.00 1236—\$4.00 1235—\$4.00 1234—\$4.00 1233—\$4.00 1232—\$4.00 1231—\$4.00 1230—\$4.00 1229—\$4.00 1228—\$4.00 1227—\$4.00 1226—\$4.00 1225—\$4.00 1224—\$4.00 1223—\$4.00 1222—\$4.00 1221—\$4.00 1220—\$4.00 1219—\$4.00 1218—\$4.00 1217—\$4.00 1216—\$4.00 1215—\$4.00 1214—\$4.00 1213—\$4.00 1212—\$4.00 1211—\$4.00 1210—\$4.00 1209—\$4.00 1208—\$4.00 1207—\$4.00 1206—\$4.00 1205—\$4.00 1204—\$4.00 1203—\$4.00 1202—\$4.00 1201—\$4.00 1200—\$4.00 1199—\$4.00 1198—\$4.00 1197—\$4.00 1196—\$4.00 1195—\$4.00 1194—\$4.00 1193—\$4.00 1192—\$4.00 1191—\$4.00 1190—\$4.00 1189—\$4.00 1188—\$4.00 1187—\$4.00 1186—\$4.00 1185—\$4.00 1184—\$4.00 1183—\$4.00 1182—\$4.00 1181—\$4.00 1180—\$4.00 1179—\$4.00 1178—\$4.00 1177—\$4.00 1176—\$4.00 1175—\$4.00 1174—\$4.00 1173—\$4.00 1172—\$4.00 1171—\$4.00 1170—\$4.00 1169—\$4.00 1168—\$4.00 1167—\$4.00 1166—\$4.00 1165—\$4.00 1164—\$4.00 1163—\$4.00 1162—\$4.00 1161—\$4.00 1160—\$4.00 1159—\$4.00 1158—\$4.00 1157—\$4.00 1156—\$4.00 1155—\$4.00 1154—\$4.00 1153—\$4.00 1152—\$4.00 1151—\$4.00 1150—\$4.00 1149—\$4.00 1148—\$4.00 1147—\$4.00 1146—\$4.00 1145—\$4.00 1144—\$4.00 1143—\$4.00 1142—\$4.00 1141—\$4.00 1140—\$4.00 1139—\$4.00 1138—\$4.00 1137—\$4.00 1136—\$4.00 1135—\$4.00 1134—\$4.00 1133—\$4.00 1132—\$4.00 1131—\$4.00 1130—\$4.00 1129—\$4.00 1128—\$4.00 1127—\$4.00 1126—\$4.00 1125—\$4.00 1124—\$4.00 1123—\$4.00 1122—\$4.00 1121—\$4.00 1120—\$4.00 1119—\$4.00 1118—\$4.00 1117—\$4.00 1116—\$4.00 1115—\$4.00 1114—\$4.00 1113—\$4.00 1112—\$4.00 1111—\$4.00 1110—\$4.00 1109—\$4.00 1108—\$4.00 1107—\$4.00 1106—\$4.00 1105—\$4.00 1104—\$4.00 1103—\$4.00 1102—\$4.00 1101—\$4.00 1100—\$4.00 1099—\$4.00 1098—\$4.00 1097—\$4.00 1096—\$4.00 1095—\$4.00 1094—\$4.00 1093—\$4.00 1092—\$4.00 1091—\$4.00 1090—\$4.00 1089—\$4.00 1088—\$4.00 1087—\$4.00 1086—\$4.00 1085—\$4.00 1084—\$4.00 1083—\$4.00 1082—\$4.00 1081—\$4.00 1080—\$4.00 1079—\$4.00 1078—\$4.00 1077—\$4.00 1076—\$4.00 1075—\$4.00 1074—\$4.00 1073—\$4.00 1072—\$4.00 1071—\$4.00 1070—\$4.00 1069—\$4.00 1068—\$4.00 1067—\$4.00 1066—\$4.00 1065—\$4.00 1064—\$4.00 1063—\$4.00 1062—\$4.00 1061—\$4.00 1060—\$4.00 1059—\$4.00 1058—\$4.00 1057—\$4.00 1056—\$4.00 1055—\$4.00 1054—\$4.00 1053—\$4.00 1052—\$4.00 1051—\$4.00 1050—\$4.00 1049—\$4.00 1048—\$4.00 1047—\$4.00 1046—\$4.00 1045—\$4.00 1044—\$4.00 1043—\$4.00 1042—\$4.00 1041—\$4.00 1040—\$4.00 1039—\$4.00 1038—\$4.00 1037—\$4.00 1036—\$4.00 1035—\$4.00 1034—\$4.00 1033—\$4.00 1032—\$4.00 1031—\$4.00 1030—\$4.00 102



Core System (the "Core Assets"), including equipment, trackage and contract rights necessary to conduct rail operations over the Core System, the net investment in affiliated companies other than Milwaukee Land Company, and current assets in an amount at least equal to current liabilities and including at least \$2 million of cash.

The treatment of creditors proposed by the Trustee in the Amended Plan was similar to that proposed in the 1981 Plan. Most of the claims against the estate not assumed by the Reorganized Railroad or forgiven by law were to be paid in cash on or before consummation, or as soon as practicable thereafter. The Amended Plan stated that consolidation with GTC would provide to Railroad additional traffic volumes sufficient to insure financial viability, and that Railroad's future as an independent operating entity would be in doubt without this traffic. Railroad and GTC instituted certain interim operating coordinations designed to improve productivity and service in the primary traffic corridors of the two systems. Subsequently, on September 5, 1984, GTC and Burlington Northern Railroad announced a similar coordination agreement to be effective January 2, 1985, and GTC announced that it would concurrently terminate the existing coordination arrangement with Railroad.

Responses to the Amended Plan included the filing, on July 27, 1984, of two alternative plans, one by Chicago and North Western Transportation Company and its wholly owned subsidiary, Mid-America Rail Properties, Inc. ("C&NW"), and the second by the Debtor corporations and CMC. The C&NW plan, which called for acquisition of Railroad's core system by Mid-America Rail Properties, Inc., was essentially the same as the Amended Plan with respect to the core system assets to be transferred, the Railroad obligations to be assumed and the satisfaction of claims against the estate. Unlike the Amended Plan, the C&NW plan was structured as a sale of assets, so as to preserve to the Debtor and CMC the potential tax benefits from Railroad's tax loss and investment tax credit carry forwards. The CMC alternative plan contemplated reorganization of the Railroad as an operating railroad around the core system, without merger or other affiliation with any other carrier, and it was similar in all material aspects to the Trustee's 1981 Plan.

On February 6, 1984, the Reorganization Court granted a motion by Soo Line Railroad Company ("Soo") for extension of the original July 27, 1983 deadline so as to permit Soo to file an alternative plan of reorganization. The February 6 order of the Reorganization Court also permitted Soo to file, no later than February 17, 1984, an application to acquire lines of Railroad pursuant to Section 5(b) of MRRA, and permitted any other interested party to file a Section 5(b) application no later than February 29, 1984. A Section 5(b) acquisition involves a sale of Railroad assets in advance of its reorganization. Soo's alternative plan of reorganization, dated and filed February 7, 1984, adopted the Amended Plan in most respects and differed from it principally in that the compensation for the Core Assets would also include \$40 million in cash.

As permitted by the February 6 order of the Reorganization Court, MRRA Section 5(b) applications to acquire all or substantially all of Railroad's Core Assets were filed by Soo, C&NW and GTC. Each of these applications offered to assume essentially the same Railroad debt as proposed to be assumed by GTC under the Amended Plan, and additional compensation in cash was offered by Soo (\$40 million) and C&NW (\$60 million).

Each of the proposals was structured so as to preserve to the Debtor and CMC the potential benefits from Railroad's tax loss and investment tax credit carry forwards. In addition to these MRRA Section 5(b) applications, companion alternative reorganization plans under Section 77 of the Bankruptcy Act were filed by these three applicants. Each party requested that, in the event MRRA Section 5(b) is deemed inapplicable, its Section 77 alternative plan be approved.

During March of 1984 GTC sought legal determination as to (1) whether the Reorganization Court abused its discretion in extending the initial deadline for filing an acquisition proposal, and (2) whether the Reorganization Court erred in holding that Section 5(b) of MRRA may be utilized where a railroad seeks to acquire, operate and control another railroad which is in reorganization. On April 4, 1984 the United States Court of Appeals for the Seventh Circuit denied GTC's motion for a temporary stay, injunction and other equitable relief, and on February 28, 1985 the Court of Appeals denied GTC's appeals.

By order dated March 14, 1984, the Reorganization Court referred the acquisition applications to the ICC for review in accordance with MRRA Section 5(b)(2), and requested the ICC to state if possible which, if any, of the applications is preferred. The ICC established a procedural schedule under which it would report back to the Reorganization Court by September 10, 1984 its decision with respect to all pending reorganization plans and Section 5(b) acquisition proposals.

The ICC's procedural schedule set April 6, 1984 as a deadline for amendment of the three acquisition proposals, and such amendments were filed on that date on behalf of Soo, C&NW and GTC. Soo and C&NW each raised their respective offers of compensation, over and above their previous offers to assume long-term obligations of approximately \$260 million, to include cash or cash equivalents of approximately \$150 million, including \$148.0 million of cash in the case of Soo and \$63.5 million of cash in the case of C&NW. GTC amended its acquisition offer by the April 6 deadline but its amendment did not contain any consideration above the assumption of approximately \$250 million in long-term obligations. GTC subsequently proposed to prepay, in lieu of merely assuming, \$143 million of Railroad's indebtedness to the Federal government under certain loan agreements. This indebtedness was part of the \$250 million to be assumed by GTC.

As requested by the Reorganization Court, the Trustee, on April 13, 1984, filed comments on the amended proposals with the ICC. The Trustee concluded that the competing proposals of Soo and C&NW meet statutory standards and were in the public interest and the interests of the estate and employees. The Trustee stated in his comments that approval and execution of either the Soo or C&NW proposal would (a) remove any doubt concerning the ability of the estate to satisfy, fully in cash, creditor claims not assumed by the acquiring carrier, and (b) trigger recapture by Railroad's employees of wages sacrificed by the employees during 1982 through 1984 under a 7% wage reduction agreement. No such recapture was possible under the GTC proposal. The Trustee concluded further that the GTC proposal, while in the public interest, could not be deemed to be in the interest of the estate or employees unless modified to substantially meet the terms of the Soo and C&NW proposals.

In accordance with its procedural schedule, the ICC in September, 1984 released its decision with respect to the pending proposals for acquisition of Railroad's core system. The ICC approved the Soo proposal, denied the GTC proposal because it failed to offer fair compensation, denied the CMC proposal because of uncertainty as to the viability of the resulting carrier on a stand-alone basis, and returned the C&NW proposal to the Reorganization Court without action because of failure (2-2 vote) to reach a majority decision. As to the C&NW proposal, the ICC found substantial benefits including service improvements and annual operational savings estimated at \$123 million. The ICC also found that the C&NW proposal would involve significant anticompetitive impacts in the Du-luth/Superior-Twin Cities-Kansas City corridor, the Chicago-Milwaukee corridor and the Chicago-Green Bay corridor, but that such impacts could be cured by granting to Soo trackage rights in these areas, including (1) rights to operate over the C&NW "Spine Line" between Kansas City, Missouri and Northfield, Minnesota; (2) rights over C&NW lines between Appleton and Green Bay, Wisconsin and the right to serve on-line industries in this sector; and (3) rights over Railroad's lines in the vicinity of Milwaukee, Wisconsin and the right to serve Milwaukee industries now served by Railroad and/or C&NW.

Upon receipt of the ICC's detailed report and findings, served September 26, the Reorganization Court set October 1, 1984 as the date for filing of any proposal modifications by Soo or C&NW. On that date, C&NW filed a modification which offered approximately \$211 million over and above its April 6, 1984 offer, consisting of \$86 million in cash, \$80 million in mortgage notes, \$25.875 million in the form of 750,000 shares of C&NW common stock and \$19 million of other considerations. As part of its modification filing, C&NW also agreed to accept the traffic-rights conditions required by the ICC if the C&NW acquisition proposal were to be approved. Soo declined to modify its compensation offer, but agreed to modify certain other aspects of its offer.

As requested by the Reorganization Court, the Trustee on October 10, 1984 issued a statement of Verified Recommendations with respect to the acquisition proposals, as amended, of Soo and C&NW. The Trustee recommended the amended C&NW proposal as being substantially superior to that of Soo, and urged that it be referred back to the ICC for review and approval. The Reorganization Court ruled, on November 1, 1984, that it would consider the C&NW proposal as modified on October 9, 1984, only after evaluation by the ICC, and referred it to the ICC for its review and recommendation. The ICC was directed to render its report and findings to the Reorganization Court by early January, 1985.

At an open voting conference held on December 20, 1984, the ICC Commissioners by a 5 to 2 vote found the C&NW plan to be in the public interest, and by a 4 to 3 vote indicated a preference for the Soo proposal. These voting results were confirmed by the ICC's formal decision and order, dated January 7, 1985 and served January 11, 1985, approving the C&NW proposal as amended and expressing preference for the Soo proposal. Arguments

for and against both proposals were presented by interested parties before the Reorganization Court in early February 1985. The Trustee strongly supported the C&NW proposal in these hearings.

On February 10, 1985 the Reorganization Court ruled orally in favor of the Soo proposal, citing competition and other public interest considerations. After that oral ruling, C&NW purportedly withdrew its proposal. Original petitions seeking writs of mandamus and/or prohibition filed by CMC seeking to overturn the February 10, 1985 ruling were denied by a Federal appeals court on February 19, 1985. Later that same date the Reorganization Court entered Order No. 809 formally directing the sale of Railroad's core system to Soo, and denied all requests for stay of the order. Notices of appeal from the order have been filed by several parties, including CMC.

In keeping with the Reorganization Court's direction in Order No. 809, the acquisition by Soo of Railroad's core system was effectuated on February 19, 1985. Transferred to Soo were substantially all of Railroad's properties and other assets utilized or held for use in its rail operations. Terms of the sale are governed by the order of the Reorganization Court and an Asset Purchase Agreement dated April 6, 1984, as amended, between the Trustee, Soo and SLRCO.

It is anticipated that Railroad will file on April 30, 1985 with the Reorganization Court a final plan of reorganization based upon its current non-railroad assets, remaining liabilities and operations. The plan must be approved by the Court and, to the extent required, by the Interstate Commerce Commission. The final consummation of an approved plan, which includes beginning payment of the approved claims of all creditors, is anticipated to be completed by the end of 1985.

**Bankruptcy Proceedings:** R.B. Ogilvie, Co. trustee, on Oct. 16 recommended acceptance of the modified purchase offer by Chicago and North Western Transportation Co. to acquire Co.'s operating assets. In a formal recommendation to U.S. District Judge T.R. McMillen, who is overseeing Co.'s bankruptcy proceedings, Mr. Ogilvie said after considering all aspects of competing proposals, he concluded Chicago and North Western offer serves the best interests of both public and private concerns. Mr. Ogilvie said the Chicago and North Western's modified proposal is substantially superior to that of the Soo Line, which the reorganization court also has before it for consideration.

Since the Chicago and North Western's modified offer includes a substantial change in price, and includes other elements that require Interstate Commerce Commission approval, Mr. Ogilvie recommended the court preliminarily approve the proposal and refer it back to the ICC for its review and approval. The North Western has estimated that its modified proposal improves its previous offer by \$210,850,000 and has a total value of approximately \$786,000,000, compared with the Soo's offer of approximately \$570,600,000. Mr. Ogilvie said that in making his recommendation, he considered the substantial public benefits the North Western proposal will generate. The ICC found these benefits, in the form of such efficiencies as the elimination of duplication in main line yard and terminal facilities, amount to approximately \$123,000,000 in annual savings.

**Principal And Interest Payment Development:** Notice was given to holders of Co. gen. mtge. 4 1/2% inc. bonds regarding payment of all remaining claims for principal and interest. On Oct. 9, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779 granting the application of R.B. Ogilvie, Trustee of the property of Co., to pay all remaining claims for principal and interest of holders of Co.'s gen. mtge. 4 1/2% inc. bonds Ser. A, 2019, and conv. inc. bonds Ser. B, 2044.

The payments authorized are \$1,090 for each \$1,000 principal amount of either Series A or Series B Bonds. Pursuant to the Reorganization Court's Order, the Harris Trust and Savings Bank has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Bonds, whether registered or unregistered, must surrender them to the Harris Bank accompanied by a properly completed and executed Letter of Transmittal in a form available from the Harris Bank. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by the Harris Bank to all registered owners of the Bonds and to all holders of unregistered (coupon) Bonds known to the Harris Bank. Holders of Bonds who have not received such materials by mail by Nov. 23, and holders of Bonds needing extra copies of the materials, may obtain them by written request mailed to: Claims Agent, Milwaukee Road General Mortgage Bonds, Harris Trust and Savings Bank, Indenture Trust Division, P.O. Box 755, Chicago, Illinois 60690.

Payments will be mailed on Jan. 2, 1985, to all holders of the Bonds who have surrendered the Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Bonds and



Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after receipt but no later than seven business days after such receipt.

The payments authorized by Order No. 779 are intended to pay the principal of the Bonds and interest on the Bonds for the years 1983 and 1984. Order No. 779 further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Bonds. (Payment of interest on the Bonds for the years prior to 1983 was previously authorized by Order No. 679 of the Reorganization Court entered on May 31, 1983. Conversion rights with respect to Series B Bonds have been deemed terminated by the Trustee because of the maturity of such Bonds declared upon the initiation of the reorganization proceedings.) Any inquiries regarding this matter should be addressed to the Indenture Trust Division at the address set out above.

Separately, notice was given to holders of Co. 1st mtge. bonds regarding payment of all remaining claims for principal and interest. On Oct. 9, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779 granting the application of R.B. Ogilvie, Trustee of the property of Co., to pay all remaining claims for principal and interest of holders of Co.'s First Mortgage Bonds due 1994. The payments authorized are \$1,080 for each \$1,000 principal amount of the Bonds. Pursuant to the Reorganization Court's Order, the Continental Illinois National Bank and Trust Company of Chicago has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Bonds, whether registered or unregistered, must surrender them to Continental Bank accompanied by a properly completed and executed Letter of Transmittal in a form available from Continental Bank. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by Continental Bank to all registered owners of the Bonds and to all holders of unregistered (coupon) Bonds known to Continental Bank. Holders of Bonds who have not received such materials by mail by Nov. 23, and holders of Bonds needing extra copies of the materials, may obtain them by written request mailed to: Milwaukee Road First Mortgage Bonds, Continental Illinois National Bank and Trust Company of Chicago, Claims Agent, Corporate Trust Operations, 30 N. LaSalle Street, 16th Floor, Chicago, Illinois 60607.

Payments will be mailed on Jan. 2, 1985, to all holders of the Bonds who have surrendered the Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Bonds and Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after the date of such receipt and, in any event, within seven business days of such receipt.

The payments authorized by Order No. 779 are intended to pay the principal of the Bonds and interest on the Bonds for the years 1983 and 1984. Order No. 779 further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Bonds. (Payment of interest on the Bonds from July 1, 1977 through Dec. 31, 1982 was previously authorized by Order No. 679 of the Reorganization Court entered on May 31, 1983.) Any inquiries regarding this matter should be addressed to the Corporate Trust Operations at the address shown above, or if you prefer may be directed by telephone to the Claims Agent's Customer Assistance line (312) 828-8513.

Separately, notice was given to holders of 1st mtge. bonds (2.75% fixed interest and 1.5% contingent interest), 1994, issued by the Bedford Belt Railway Co. and assumed by Co. regarding payment of all remaining claims for principal and interest. On Oct. 9, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779 granting the application of R.B. Ogilvie, Trustee of the property of Co. to pay all remaining claims for principal and interest of holders of such 1st mtge. bonds (2.75% fixed interest and 1.5% contingent interest) due Jan. 1, 1994 issued by the Bedford Belt Railway Co. and assumed by Co. The payments authorized are \$1,085 for each \$1,000 principal amount of the Bedford Belt Bonds.

Pursuant to the Reorganization Court's Order, the American National Bank and Trust Company of Chicago has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Bedford Belt Bonds, whether registered or unregistered, must surrender them to American accompanied by a properly completed and executed Letter of Transmittal in a form available from American. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by American to all registered owners of the Bedford Belt Bonds and to all holders of unregistered (coupon) Bedford Belt Bonds known to American. Holders of Bonds who have not received such materials by mail by Nov. 23, and holders of Bedford Belt Bonds needing extra copies of the materials, may obtain them by written request mailed to: American National Bank and Trust Company of Chicago, 33

North LaSalle Street, Chicago, Illinois 60690. Attention: Corporate Trust Customer Service, Room 1308, Bedford Belt Bonds, 312-661-6006.

Payments will be mailed on Jan. 2, 1985, to all holders of the Bedford Belt Bonds who have surrendered the Bedford Belt Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Bedford Belt Bonds and Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after the date of such receipt and, in any event, within (7) business days after such receipt.

The payments authorized by Order No. 779 are intended to pay the principal of the Bedford Belt Bonds and interest on the Bedford Belt Bonds for the years 1983 and 1984. Order No. 779 further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Bedford Belt Bonds. (Payment of interest on the Bedford Belt Bonds from July 1, 1977 through December 31, 1982 was previously authorized by Order No. 679 of the Reorganization Court entered on May 31, 1983.) Any inquiries regarding this matter should be addressed to the Corporate Trust Division at the address shown above.

Separately, notice was given to holders of Chicago, Terre Haute and Southeastern Railway Co. 1st and 2nd mtge. bonds of Co. regarding payment of all remaining claims for principal and interest. On Oct. 9, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779 granting the application of R.B. Ogilvie, Trustee of the property of Co., to pay all remaining claims for principal and interest of holders of Co.'s Chicago, Terre Haute and Southeastern Railway Co. 1st and 2nd mtge. bonds, 1994.

The payments authorized are \$1,085 for each \$1,000 principal amount of the Bonds. Holders of bearer (unregistered) Bonds are authorized to receive an additional \$13.75 for each \$1,000 principal amount for each bearer Bond for which payment was deferred pursuant to paragraph 3(a) of the Reorganization Court's Order No. 679-A.

Pursuant to the Reorganization Court's Order, J. Henry Schroder Bank & Trust Company ("Schroder") has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Bonds, whether registered or unregistered, must surrender them to Schroder accompanied by a properly completed and executed Letter of Transmittal in a form available from Schroder. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by Schroder to all registered owners of the Bonds and to all holders of unregistered (coupon) Bonds known to Schroder. Holders of Bonds who have not received such materials by mail by November 23, 1984, and holders of Bonds needing extra copies of the materials, may obtain them by written request to: Claims Agent, Chicago, Terre Haute and Southeastern Railway Company, First and Refunding Mortgage Bonds, J. Henry Schroder Bank & Trust Company, Corporate Trust Department, One State Street Plaza, New York, New York 10015.

Payments will be mailed on Jan. 2, 1985, to all holders of the Bonds who have surrendered the Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Bonds and Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after the date of such receipt and, in any event, within seven business days of such receipt. The \$1,085 payment authorized by Order No. 779 is intended to pay the principal of the Bonds and interest on the Bonds for the years 1983 and 1984, and the \$13.75 payment is intended to pay the accrued interest on the Bonds for the period of July 1, 1977 through Dec. 31, 1977. Payment of interest on the Bonds from January 1, 1978 through Dec. 31, 1982 was previously authorized by Order No. 679-A of the Reorganization Court entered on May 31, 1983.

Order No. 779 further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Bonds. There is, however, currently pending an appeal in the U.S. Court of Appeals for the Seventh Circuit from the Reorganization Court's Order No. 726-A, in which the Reorganization Court held that the Trustee's Calculation of accrued interest on the Bonds for the period July 1, 1977 through December 31, 1982, was correct. In the event that Schroder is successful in its appeal, holders of the Bonds may be entitled to a further distribution of accrued interest for the period July 1, 1977 through Dec. 31, 1982. Any inquiries regarding this matter should be addressed to the Corporate Trust Department at the address shown above.

Separately, notice was given to holders of Chicago, Terre Haute and Southeastern Railway Co. Inc. mtge. bonds assumed by Co. regarding payment of all remaining claims for principal and interest. On Oct. 25, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779A granting the application of LaSalle National Bank as Successor Indenture Trustee to pay all re-

maining claims for principal and interest of holders of Co.'s Chicago, Terre Haute and Southeastern Railway Co. Inc. mtge. bonds, 1994. The payments authorized are \$1,322.29 for each \$1,000 principal amount of the Bonds.

Pursuant to the Reorganization Court's Order, the LaSalle as Trustee has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Bonds, whether registered or unregistered, must surrender them to the Claims Agent accompanied by a properly completed and executed Letter of Transmittal in a form available from the Claims Agent. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by the Claims Agent to all registered owners of the Bonds and to all holders of unregistered (coupon) Bonds known to LaSalle as Trustee. Holders of Bonds who have not received such materials by mail by Nov. 23, and holders of Bonds needing extra copies of the materials, may obtain them by written request mailed to: LaSalle National Bank, as Trustee, Chicago, Terre Haute and Southeastern Railway Company Income Mortgage Bonds, Attn: Corporate Trust Operations Division, 135 LaSalle Street, Room 511, Chicago, Illinois 60690.

Payments will be mailed on Jan. 2, 1985, to all holders of the Bonds who have surrendered the Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Bonds and Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after the date of such receipt and, in any event, within seven business days after such receipt.

The payments authorized by Order No. 779A are intended to pay the principal of the Bonds and fixed interest claims on the Bonds, for one-half of 1977 and the years 1978 through 1984 and contingent interest claims for the years 1975 through 1977 and 1981 through 1984. No interest will accrue on the Bonds after Dec. 31. Order No. 779A further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Bonds. Any inquiries regarding this matter should be addressed to the Corporate Trust Operations Division at the address shown above.

Separately, notice was given to holders of 1st mtge. bonds (2.75% fixed interest and 1.5% contingent interest), 1994, issued by the Southern Indiana Railway Co. and assumed by Co. regarding payment of all remaining claims for principal and interest. On Oct. 9, 1984, the U.S. District Court for the Northern District of Illinois entered its Order No. 779 granting the application of R.B. Ogilvie, Trustee of the property of Co. to pay all remaining claims for principal and interest of holders of such 1st mtge. bonds (2.75% fixed interest and 1.5% contingent interest) due January 1, 1994, issued by The Southern Indiana Railway Co. and assumed by Co. The payments authorized are \$1,085 for each \$1,000 principal amount of Southern Indiana Bonds.

Pursuant to the Reorganization Court's Order, the Mellon Bank (EAST), National Association has been designated as the sole Claims Agent with respect to such payments. In order to receive the payments, holders of the Southern Indiana Bonds, whether registered or unregistered, must surrender them to the Mellon Bank accompanied by a properly completed and executed Letter of Transmittal in a form available from the Mellon Bank. Copies of the Letter of Transmittal form and Instructions with respect thereto have been mailed by the Mellon Bank to all registered owners of the Southern Indiana Bonds and to all holders of unregistered (coupon) Southern Indiana Bonds known to the Mellon Bank. Holders of Southern Indiana Bonds who have not received such materials by mail by Nov. 23, and holders of Southern Indiana Bonds needing extra copies of the materials, may obtain them as follows: Requests presented by hand should be delivered to: Mellon Bank (EAST), 4 Mellon Bank Center, 3rd Floor, Philadelphia, PA 19102. Attention: Arlene Carr. Requests presented by mail should be addressed to: Mellon Bank (EAST), 4 Mellon Bank Center, Philadelphia, PA 19102. Attention: Corporate Trust Department.

Payments will be mailed on Jan. 2, 1985, to all holders of the Southern Indiana Bonds who have surrendered the Southern Indiana Bonds and submitted a properly completed and executed Letter of Transmittal by Dec. 21. Payments to holders whose Southern Indiana Bonds and Letters of Transmittal are received after Dec. 21, will be made as soon as practicable after the date of such receipt, but, in any event, within seven business days after such receipt.

The payments authorized by Order No. 779 are intended to pay the principal of the Southern Indiana Bonds and interest on the Southern Indiana Bonds for the years 1983 and 1984. Order No. 779 further states that the payments shall be deemed as settlement in full of all remaining claims with respect to the Southern Indiana Bonds. (Payment of fixed contingent interest on the Southern Indiana Bonds for the years 1978 through 1982 was previously authorized by Order No. 679 of the



Reorganization Court entered on May 31, 1983. Any inquiries regarding this matter should be addressed or directed to the Corporate Trust Department at the address set out below: Mellon Bank (EAST), Corporate Trust Department, 4 Mellon Bank Center, Philadelphia, Pennsylvania 19102, (215)583-3430.

**Acquisition Development:** Soo Line R.R. Co. completed its purchase of the Milwaukee Road in Chicago on Feb. 19, 1985, following final approval of the reorganization court to proceed with the sale. U.S. District Court Judge T.R. McMillen issued a written order authorizing the estate to sell the Milwaukee Road to Soo Line R.R. Judge McMillen announced on Feb. 8, 1985, his decision to sell the carrier to Soo Line, but delayed issuing a written order until Feb. 19, 1985. At the closing, the core assets of the Milwaukee Road were acquired by a wholly owned subsidiary of Soo Line. The Milwaukee estate received \$187,000,000 in cash from Soo Line covering all payments due under terms of the asset purchase agreement including settlement of deferred wages for Milwaukee Road employees. In addition, Soo Line assumed certain long-term and current debts of the carrier. The trustee had placed a value on Soo Line's total purchase offer of approximately \$570,000,000.

**Business:** Cx is involved in various segments of business which include:

The transportation segment consists principally of Railroad. Its principal activity is providing rail transportation of freight as a common carrier. As of Dec. 31, 1982, route-miles operated were 3,269, which is roughly 34% of the transcontinental system operated at the beginning of 1980.

Included in the transportation segment is a wholly owned trucking subsidiary. The Milwaukee Motor Transportation Company ("MMTC"), operated principally for pick-up and delivery of containers and highway trailers handled by Railroad in intermodal service, and similar intermodal adjunct activities. MMTC also operates intermodal terminal facilities under contract to Railroad, and owns and maintains certain intermodal trailing equipment used under contract by Railroad. Also included in the transportation segment is intercity passenger service between Chicago, Milwaukee, and Minneapolis-St. Paul under contract to National Railroad Passenger Corp. (Amtrak), and commuter passenger service in the Chicago area through Sept. 30, 1982. Rolling stock used in these passenger operations is government-owned. Passenger operations are not significant elements of the transportation segment.

The timber and real estate segment was conducted by Milwaukee Land Co. Timber operations were located mainly in the states of Washington and Idaho and consisted principally of tree-growing, reforestation, and sale of merchantable growth by licensing timber and other producers to harvest the timber, usually under long-term contracts. Real estate operations involved principally the acquisition, development and sale of land for industrial sites. MNT, Inc., a subsidiary of Milwaukee Land Co., is a minor equity participant in a joint venture, Northern Tier Pipeline Co., which is planning a crude oil pipeline from the Puget Sound area to Minnesota.

#### Mileage Operated at Dec. 31, 1984:

	Main Line	Branch Line	Total
Main road	1,638	1,385	3,023
Sec. main track	600	33	634
Other main track	35	14	47
Pass. Cross. Turn.			
trks.	189	109	298
Switching tracks	343	237	580
Yard switch tracks	575	277	852
<b>Total</b>	<b>3,378</b>	<b>2,075</b>	<b>5,453</b>

#### Classification of Equipment, at Dec. 31, 1984:

Type	Number
<b>Locomotive Units:</b>	
Diesel Electric	7
Passenger	81
Switching	233
Multiple purpose	
Freight	
<b>Total</b>	<b>321</b>
<b>Freight Cars:</b>	
Box	3,562
Flat	1,991
Gondola and hopper	5,039
Refrigerator	661
Caboose	156
<b>Total</b>	<b>11,411</b>
<b>Service Cars:</b>	
Officers & business	1
Derrick and snow removal cars	86
Other	1,405
<b>Total</b>	<b>1,492</b>

#### Officers

W.L. Smith, Pres. & Chief Exec. Off.  
T.F. Power, Jr., Vice-Pres.—Reorganization  
P.C. White, Vice-Pres.—Mkt.  
L.W. Harrington, Vice-Pres.—Admin.  
P.F. Cruikshank, Vice-Pres.—Operations  
J.J. Nagle, Gen. Counsel

M.W. Bonnom, Treasurer

G.G. Grudnowski, Sec.

M.W. Bonnom, Asst. Treas.

#### Appointed Trustee

Richard B. Oallivie (see Reorganization above).

**Auditors:** Peat, Marwick, Mitchell & Co.

**Annual Meeting:** Second Tuesday in May.

**No. of Stockholders:** Dec. 31, 1984: pfd., 272; com., 517.

**No. of Employees:** Dec. 31, 1984: 4,816.

**Offices:** General: 516 W. Jackson Blvd., Chicago, IL 60606; Tel: (312)649-3000.

**Consol. Income Account, yrs. ended Dec. 31 (\$000 omitted):**

	1984	1983
Revenues	31,133	12,573
Expenses	2,651	1,520
Inc. cont. oper.	31,681	20,053
Earn. com. share	514.53	513.32
Discont. oper.		
Oper. loss	21,667	10,690
Prov. depts. loss	73,000	
<b>Net Income</b>	<b>484,196</b>	<b>18,363</b>
Earn. com. share	450.26	58.42
Yr. end com. shs.	2,179,892	2,179,892

**Consol. Balance Sheet, as of Dec. 31 (\$000 omitted):**

	1984	1983
Assets		
Cash & invest.	91,381	110,647
Receivables	9,252	12,836
Inv. curr. assets	103,438	86,637
<b>Total Current</b>	<b>203,971</b>	<b>209,160</b>
Properties	12,362	12,828
Invest. in affil.	3,416	17,335
Special funds	101,284	152,727
Other assets, etc.	1,023	6,213
Debt. rail prov.	39,666	19,558
Non curr. assets		
discont. oper.	574,696	588,411
<b>Total</b>	<b>936,358</b>	<b>1,013,962</b>
Liabilities		
Accts. payable	2,461	1,271
Curr. liab. discount		
oper.	99,652	90,634
Prov. depts. loss		
discont. oper.	73,000	
<b>Total Current</b>	<b>175,116</b>	<b>91,905</b>
Long tm. debt, etc.	53,601	140,162
Accounts pay.	57,203	60,289
Non curr. liab.		
discont. oper.	375,093	382,193
Other liab.	3,106	2,892
St. partic. pld. stk.		
(\$100)	51,865	51,865
Common stk.	217,989	217,989
Capital exc. par val.	117,830	117,830
Deficit	117,348	51,162
<b>Total</b>	<b>936,358</b>	<b>1,013,962</b>
Net curr. assets	29,835	108,256
1984 & 1983: 2,179,892 net par shs.		

**Auditor's Report:** Following is Report of the Independent Auditors, Peat, Marwick, Mitchell & Co., as it appeared in 1983 Annual Report.

"We have examined the consolidated balance sheets of Chicago, Milwaukee, St. Paul and Pacific Railroad Company (in reorganization) and subsidiaries (Railroad) as of December 31, 1983 and 1982 and the related consolidated statements of operations and accumulated deficit and changes in financial position for each of the years in the three-year period ended December 31, 1983. We also examined the related supporting schedules of Railroad for each of the years in the three-year period ended December 31, 1983 as listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described more fully in note 1 of notes to consolidated financial statements, on December 19, 1977, Railroad filed a voluntary petition for reorganization under Section 77 of the Federal Bankruptcy Act. The United States District Court for the Northern District of Illinois, Eastern Division (Reorganization Court), appointed a trustee of the property and authorized the Trustee to conduct the business and manage the property of Railroad during the pendency of the reorganization proceedings for such time and on such conditions as may be in the best interest of continuing, so far as feasible, Railroad's rail operations.

The Trustee has recognized that the most desirable outcome for the reorganization proceedings may be the acquisition of Railroad by another carrier as a going concern for continued rail operation. On August 17, 1982 the Trustee, the Milwaukee Land Company, (a wholly owned subsidiary of Railroad) and Grand Trunk Corporation (GTC) executed a stock acquisition agreement which contemplated the reorganization of Railroad as an operating railroad around its 3,100 mile mid-west Core System, and provided that the Trustee would issue all of the voting stock of such newly Reorganized Railroad to GTC, as required by the Stock Agreement, the Trustee

revised the 1981 Plan to accommodate the proposed business combination with GTC. The Trustee's Amended Plan of Reorganization dated March 31, 1985 ("Amended Plan") was filed with the Reorganization Court and transmitted to the ICC on that date.

Response to the Amended Plan also included the filing, on July 27, 1983, of two alternative plans, one by Chicago and North Western Transportation Company and its wholly owned subsidiary, Mid Rail Properties, Inc. ("C&NW"), and the second by the Debtor corporation and Chicago Milwaukee Corporation ("CMC"). Railroad's principal stockholder. The C&NW plan is essentially the same as the Amended Plan with respect to the Core System assets to be transferred, Railroad obligations to be assumed, and satisfaction of claims against the Estate. The C&NW plan differs from the Amended Plan principally in that it is a plan of liquidation. The CMC alternative plan contemplates reorganization of the Debtor as an operating railroad around the Core System, without merger or other affiliation with any other carrier and is structurally similar in all material respects to the Trustee's 1981 Plan.

On February 2, 1984 the Soo Line Railroad Company ("Soo") filed an application to acquire lines of Railroad pursuant to Section 5(b) of Milwaukee Railroad Restructuring Act ("MIRA"), along with its Alternative Plan of Reorganization. This plan adopted the Amended Plan in most respects.

As permitted by an order of the Reorganization Court in February 1984, Soo, C&NW and GTC filed MIRA Section 5(b) applications to acquire Railroad's Core Assets. All three applications offer to assume essentially the same Railroad debt as proposed to be assumed by GTC under the Amended Plan, and additional compensation in cash is offered by Soo (\$40 million) and C&NW (\$60 million).

By order dated March 14, 1984, the Reorganization Court referred the previously mentioned applications to the ICC for review in accordance with MIRA Section 5(b)(2), and requested the ICC to state if possible which, if any, of the applications is preferred. The order states that the ICC will set a deadline for any final amendment of the applications and will report its conclusions to the Reorganization Court on or before September 10, 1984. On March 28, 1984, the ICC accepted for consideration all four pending reorganization plans and all three pending MIRA Section 5(b) acquisition proposals subject to certain conditions, one of which is that final terms of the acquisition proposals will be submitted by April 6, 1984, and established a supplementary procedure schedule governing its consideration of all acquisition proposals in order for it to report to the Reorganization Court by September 10, 1984. In addition, the GTC filed with the United States Court of Appeals for the Seventh Circuit a motion asking that the Court stay the effect of the orders referred to in this and the first preceding paragraph.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles that contemplate continuation of Railroad as a going concern. This basis presumes that cash will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur either in the ordinary course of business or in a sale of Railroad's Core System prior to consummation of reorganization proceedings, rather than through a process of forced liquidation. Accordingly, such consolidated financial statements do not purport to present (1) realizable value of all assets or their availability on a liquidation basis; (2) the amount or priorities of liabilities and contingencies which may be allowed in the reorganization proceedings or (3) the effects upon shareholder accounts, or upon future operations, of any changes which may be made in the capitalization of Railroad, the pending sale of its Core System, or in the manner of conducting its business. We do not express any opinion as to Railroad's ability to continue operations on a going concern basis.

Railroad has not presented supplementary information on the effects of changing prices that the Financial Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements as discussed in note 29 of the notes to consolidated financial statements.

In our opinion, subject to the effects of such adjustments that would have been required had the ultimate resolution of the uncertainty discussed in paragraphs two through seven been known, the aforementioned consolidated financial statements present fairly the financial position of Chicago, Milwaukee, St. Paul and Pacific Railroad Company and subsidiaries at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in certain applications of its method for applying ratable depreciation to track structure as more fully described in note 3 of

**QUEBEC CENTRAL RAILWAY COMPANY**

(Operated under lease by Canadian Pacific Limited)

**History:** Incorporated April 5, 1869 by Act of Quebec Legislature as Sherbrooke, East. Townships and Kennebec Ry. Co.; name changed as above in 1875. Road opened in 1881 and various extensions were subsequently built.

**Lease:** As of December 31, 1912, the Quebec Central Railway was leased to the Canadian Pacific Ltd. for 999 years, at an annual rental equivalent of 4% on first mortgage debenture stock and 5% on capital stock.

**Line of Road:** Sherbrooke to Walsh, 129.4 miles; Valley Jct. to Lake Frontier, 78.8 miles; Tring Jct. to Megantic, 58.3 miles; Scotts Jct. to Harlaka, 27.5 miles; Newport & Richford R.R. — Boundary to Newport, Vermont, 3.8 miles; Massawippi Valley Ry.-Lennoxville to Boundary, 32.0 miles; Beebe Jct. to Rock Island, 2.4 miles; trackage rights, 5.5 miles. Grand Total, 337.7 miles.

**Officers**

Jean-Claude Pare, Pres.  
R.M. McLearn, Vice-Pres.  
P. Bernadet, Sec.  
D.R. Keast, Asst. Sec., Registrar & Transfer Agent  
Mrs. D.J. Kezar, Asst. Sec.  
D.E. Sloan, Treas.  
J.L. Loewan, Asst. Sec.  
R.J. Bell, Mgr.

**Directors**

R.M. McLearn D.W. Flicker  
G.W. Armstrong Joseph Pope  
Jean-Claude Pare

**Annual Meeting:** Third Wednesday in April.

**General Office:** Sherbrooke, Que.

**Head Office:** Montreal, Quebec H3C 3E4.

**Bonded Debt:** 1. Quebec Central Railway Co., 4% first debenture stock:  
**AUTHORIZED** — \$15,000 per mile; outstanding, \$904,837.

**OWNERSHIP** — Canadian Pacific Ltd. owns about 14.89%.

**INTEREST PAID** — F&A 1, in sterling, at office of Trustee.

**TRUSTEE AND REGISTRAR** — English Association of American Bond & Share Holders, Ltd., London, Eng.

**DENOMINATION** — Transferable in multiples of £1.

**CALLABLE** — At 110 at any time on six months' notice.

**GUARANTEED** — As to interest under lease by Canadian Pacific Ltd.

**SECURITY** — First lien on the property.

**UNDERLIE** — £676,000 (\$3,289,866) Quebec Central Ry. 4 1/4% bond, due on demand (No. 2).

**VOTING POWER** — One vote for every £25 of bonds held.

**LISTED** — On London Stock Exchange.

Price Range (in £):

	1987	1986	1985	1984	1983
High	41 1/2	30	34	35	39
Low	30	29	29	32	31 1/2

London.

2. Quebec Central Railway Co., 4 1/4 Bond, due on demand.

**AUTHORIZED** — £676,000, outstg., £676,000.

**OWNERSHIP** — All owned by Canadian Pacific Ltd.

**MATURITY** — On Demand.

**INTEREST PAID** — On Demand.

**CALLABLE** — On Demand.

**SECURITY** — Second and third lien on entire property following \$904,837 Quebec Central Ry. 4% deb. stock (No. 1).

**PURPOSE** — Issued to redeem 3 1/2% second mortgage debenture stock and 5% third mortgage bonds.

**Capital Stock:** 1. Quebec Central Railway Co. stock:

**OUTSTANDING** — £1,094,850

**OWNERSHIP** — Canadian Pacific Ltd. owns about 9% of stock.

**DENOMINATION** — Issued in denominations of £1 sterling.

**DIVIDENDS** — Dividends paid under lease, 4% per annum to 1916; 5% thereafter.

**VOTING RIGHTS** — One vote for every £25 of capital stock held.

**TRANSFER AGENT AND REGISTRAR** — D.R. Keast, 50 Finsbury Square, London, England, EC2A 100.

**LISTED** — On London Stock Exchange.

Price Range (in £) —

	1987	1986	1985-84	1983
High	100	.....	.....	100
Low	90	.....	.....	35 1/2

London.

**ST. LAWRENCE & OTTAWA RAILWAY COMPANY**

(Operated under lease by Canadian Pacific Limited)

**History:** Originally incorporated Aug. 10, 1850, as the By-Town and Prescott Ry. Co. Name changed to Ottawa and Prescott Ry. Co. on May 30, 1855. Re-incorporated on Dec. 21, 1867 as the St. Lawrence and Ottawa Ry. Co. and granted a Dominion charter. Road opened May 10, 1854. Sold under foreclosure in 1866 and present company organized. Chaudiere Branch built in 1871.

**Lease:** Road leased to the Canadian Pacific Ltd. for 999 years from Dec. 15, 1881 at a rental of 4% on bonds.

**Line of Road:** Prescott to Solim, Ottawa terminal limit, 45.5 miles.

**Officers**

B.F. Dixon, Pres.  
J.H. Blotsky, Vice-Pres.  
P. Bernadet, Sec.  
Mrs. D.J. Kezar, Asst. Sec.  
D.R. Keast, Registrar

**Directors**

G.A. Feigel P.R. Gingras  
R. Bernard J.H. Blotsky  
B.F. Dixon

**Office:** Montreal, Quebec H3C 3E4.

**Bonded Debt:** 1. St. Lawrence & Ottawa Railway Co. first 4s; due 1910:

**OUTSTANDING** — £200,000 (of which £39,600 held in sinking fund) (Canadian Pacific owns about 26%).

**DATED** — June 15, 1876.

**MATURITY** — June 15, 1910. See under Other Provisions, below.

**INTEREST PAID** — J&D 15, at Canadian Pacific office, London, Eng. Principal and interest payable in sterling only.

**GUARANTEED** — As to interest by Canadian Pacific Ltd., by endorsement.

**REGISTRAR** — W.E. Reeve, 50 Finsbury Square, London, England EC2A 100.

**DENOMINATION** — Coupon, £50 and £100.

**CALLABLE** — Not callable.

**OTHER PROVISIONS** — The bonds originally were 6s, but under the lease the rate was reduced to 4%; bonds so endorsed at the same time bondholders agreed not to force payment of the principal of the bonds during the term of the lease.

**SECURITY** — A first lien on the entire property of the company.

**LISTED** — On London Stock Exchange.

Price Range: 1985 1984 1983 1982 1981

High ..... £30 £31 £30 £33 1/2 £29 1/2

Low ..... 28 28 26 23 26

London.

**Capital Stock:** 1. St. Lawrence & Ottawa Railway Co. preference stock; no par:

**AUTHORIZED** — \$3,500,000; outstanding, Dec. 31, 1987, \$789,909 (of which \$762,197 owned by Canadian Pacific Ltd.); no par.

**OTHER PROVISIONS** — There are no callable or sinking fund provisions.

**DIVIDENDS** — No dividends paid.

**REGISTRAR** — W.E. Reeve.

**SASKATCHEWAN & WESTERN RAILWAY COMPANY**

(Operated under lease by Canadian Pacific Limited)

**History:** Incorporated in the Province of Manitoba on April 19, 1886. Granted a Dominion Charter on May 23, 1901.

**Lease:** Road constructed in 1889 and leased to the Manitoba and North Western Ry. Co., of Canada, which road in turn is leased to the Canadian Pacific Ltd. Rental has been equal to depreciation charged for year by lessor in its accounts.

**Officers**

B.F. Dixon, Pres.  
P.R. Gingras, Vice-Pres.  
P. Bernadet, Sec.  
Mrs. D.J. Kezar, Asst. Sec.

**Directors**

G.A. Feigel P.R. Gingras  
R. Bernard R. Besner  
B.F. Dixon

**Annual Meeting:** Second Tuesday in Sept.

**Office:** Montreal, Que. H3C 3E4.

**Bonded Debt:** Saskatchewan & Western Railway Co. first gold 5s:

**AUTHORIZED** — \$310,000; outstanding, Dec. 31, 1987, \$95,240.

**OWNERSHIP** — All owned by Canadian Pacific Ltd.

**Capital Stock:** 1. Saskatchewan & Western Railway Co. preferred; par \$100:

**AUTHORIZED** — 775 shares; issued, none; par \$100.

2. Saskatchewan & Western Railway Co. common; par \$100:

**AUTHORIZED** — 10,000 shares; outstanding, 2,325 shares; par \$100.

**OWNERSHIP** — All owned by Canadian Pacific Limited.

**SOO LINE CORPORATION**

(Controlled by Canadian Pacific Limited)

**HISTORY**

Incorporated in Minnesota in 1984.

Under a Plan of Exchange approved by shareholders of the Soo Line Railroad Co. on Dec. 12, 1984, each share of Soo Line Railroad's common stock issued and outstanding on Dec. 31, 1984 was exchanged for one share of the Company's common stock.

On Feb. 19, 1985, the Company, through its wholly-owned subsidiary, The Milwaukee Road Inc., acquired the transportation operations and related assets of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. The purchase price of the acquired assets was \$658 million, of which \$186 million was paid in cash and the remainder represents obligations assumed and other acquisition costs. Effective Jan. 1, 1986, The Milwaukee Road was merged into and with Soo Line Railroad Co.

On Oct. 11, 1987 the Co. sold to Wisconsin Central Ltd. (Buyer) its Lake States Transportation

Division (LSTD) and related assets. This sale included approximately 2,000 miles of track and trackage rights, adjacent yard and terminal facilities, substantially all associated buildings, adjoining property not used for rail operations, specified maintenance machinery, vehicles, tools and inventory previously utilized on LSTD. In addition, the Co. sold 26 locomotives and 2,120 freight cars to Buyer. Buyer also subleased 624 freight cars that continue to be under long-term lease by Soo Line. The sale excluded all cash, accounts receivable, prepaid expenses and liabilities attributable to LSTD properties. Total cash proceeds from the sale of \$133 million were primarily used to reduce long-term debt.

**CONTROL**

Approximately 56% of the common stock of the Company is owned by Canadian Pacific Limited.

**BUSINESS**

Company is a holding company which provides freight transportation service through its wholly-owned subsidiaries.

Soo Line Railroad Co. operates 2,700 miles of mainline and 3,100 miles of branch line track in 12 states. The Railroad operates from the Canadian border through significant grain growing areas in North Dakota, Minnesota and Iowa, as well as through industrial areas of Minnesota and Wisconsin, to interchange points at Chicago, Kansas City, Missouri and Louisville.

The Milwaukee Motor Transportation Co. and its Hiawatha Transportation division provide truck cartage, intermodal terminal services and over-the-road contract service. Tri-State Land Co. and its affiliate own and manage real estate for the Corporation and Railroad.



## PROPERTIES

At Dec. 31, 1987, Soo Line Railroad owned 4,202 miles of mainline and branchline track and owned or leased 435 locomotive units and 13,393 freight cars.

Major locomotive and freight car shops are located in Minneapolis and St. Paul, Minn. Principal yards are in St. Paul and Thief River Falls, Minn.; Schiller Park and Bensenville, Ill.; Superior and Milwaukee, Wis.; Davenport, Iowa; and Kansas City.

## SUBSIDIARIES

The following are wholly owned.  
Soo Line Railroad Co.  
The Milwaukee Motor Transportation Co.  
Tri-State Land Co.  
Shoreham Equitable Insurance LTD.

## INCOME ACCOUNTS

## MANAGEMENT

## Officers

L.M. Cavanaugh, Chmn., Chief Exec. Off. & President  
W.C. Serkland, Senior Vice-Pres. & Chief Legal Off.  
J.A. Lee, Senior Vice-Pres. & Chief Fin. Off.  
J.C. Miller, Contr. & Chief Acctg. Off.  
F.B. Albers, Corp. Sec.  
J.A. Mogen, Treas.

## Directors

D.F. Swanson  
D.M. Cavanaugh  
R.T. Crowder  
R.C. Gilmore  
W.R. Wallin  
R.S. Allison  
R.G. Cleary  
G.H. Dixon  
F.T. Heffelfinger II

B.E. Jac

R.K. Ga

W.W. Stinson

G.W. Mead II

W.G. Phillips

Auditors: Deloitte Haskins &amp; Sells.

Counsel: Skadden, Arps, Slate, Meagher &amp; Flom.

Annual Meeting: In Apr.

No. of Stockholders: Jan. 31, 1988, 3,297.

No. of Employees: 1987 average, 5,633.

Executive Office: 800 Soo Line Building, 105 South Fifth Street, Minneapolis, MN 55402. Tel: (612)347-8000.

Mailing Address: Box 530, Minneapolis, MN 55440.

## CONSOLIDATED INCOME ACCOUNT, YEARS ENDED DEC. 31.

(in thousands of dollars)

	1987	1986	1985	1984	1983
Operating revenues:					
Transportation	599,583	613,131	606,695	315,524	293,230
Real estate	13,541	18,692	10,875	9,066	6,316
Total operating revenues	613,124	631,823	617,570	324,590	299,546
Operating expenses:					
Transportation:					
Way & structures	109,408	125,686	124,691	61,628	58,957
Equipment	142,727	148,982	146,601	72,658	66,438
Transportation operations	254,730	256,392	263,921	127,512	118,005
General & administrative	61,741	68,228	69,945	30,503	29,115
Special charges	24,016	82,003	.....	.....	.....
Total transportation	592,622	681,291	605,158	292,301	272,515
Real estate	1,024	1,784	2,867	2,981	2,640
Total operating expenses	593,646	683,075	608,025	295,282	275,155
Operating income:					
Transportation	6,961	(68,160)	1,537	23,223	20,715
Real estate	12,517	16,908	8,008	6,085	3,676
Total operating income	19,478	(51,252)	9,545	29,308	24,391
Interest income	1,988	739	3,047	8,589	6,988
Other income — net	2,706	6,804	1,722	565	477
Interest expense	39,876	40,806	37,905	9,060	9,997
Income (loss) before income taxes	(15,704)	(84,515)	(23,591)	29,402	21,859
Provision (benefit) for income taxes:					
Current	1,700	(600)	(1,500)	(1,500)	(2,700)
Deferred	(8,900)	(40,600)	(13,400)	12,900	10,900
Total provision (benefit) for income taxes	(7,200)	(41,200)	(14,900)	11,400	8,200
Net income (loss)	(8,504)	(43,315)	(8,691)	18,002	13,659
Net income (loss) per share	\$(0.90)	\$(4.56)	\$(1.14)	\$2.37	\$1.80
Average shares outstanding	9,490,702	9,490,702	7,617,589	7,592,884	7,595,455
Retained income — beginning of year	104,829	150,991	169,357	160,465	160,478
Net income (loss)	(8,504)	(43,315)	(8,691)	18,002	13,659
Total	96,325	107,676	160,666	178,467	174,137
Cash dividend declared	.....	2,847	9,675	9,110	13,672
Retained income — end of year	96,325	104,829	150,991	169,357	160,465

Includes Milwaukee Road Inc. since Feb. 19, 1985.

## Consolidated Statements of Changes in Financial Position, years ended Dec. 31 (in \$000):

	1987	1986	1985
Operations:			
Net income (loss)	(8,504)	(43,315)	(8,691)
Charges (credits) to income not currently affecting cash from operations:			
Depreciation	40,552	42,749	40,779
Def. inc. taxes	(8,900)	(40,600)	(13,400)
Special charges	24,016	82,003	.....
Gain on office building sale	(742)	(10,042)	.....
Def. interest exp. added to lg.-tm. debt	6,918	5,929	4,567
Amortiz. of discount on accr. liabil.	5,460	4,122	7,597
Equity in undistrib. earnings of affil.	(3,137)	(857)	(1,305)
Other non cash items-net	(2,972)	(2,049)	(1,068)
Total	52,691	37,940	28,479
Certain working capital changes impacting cash from (for) operations:			
Accounts receiv.	22,439	(31,155)	14,501
Material & supplies	4,166	10,680	6,848
Accts. & wages payable	(15,902)	4,738	(11,860)
Interest accrued	(2,281)	(213)	(776)
Acc. taxes, net of refundable inc. taxes	901	944	(2,836)
Other-net	(8,734)	(8,544)	(2,384)
Total	589	(23,550)	3,493
Payment of accr. empl. reduction costs	(37,476)	(67,374)	(16,449)
Net cash flow from ops.	15,804	(52,984)	15,523
Investments:			
Acqu. of Milwaukee Road assets:			
Working cap. deficit, excl. curr. debt maturities & cash & short-term invest.	.....	1,370	33,902
Properties & other lg.-tm. assets	.....	923	(515,552)
Lg.-tm. debt & other lg.-tm. liab. assumed incl. curr. debt maturities	.....	3,499	304,138
Net cash (payment) refund for Milwaukee Road assets	.....	5,792	(177,512)
Capital expend.	(26,538)	(23,939)	(21,530)
Invest. in and advances to affil. cos.	615	(3,498)	(1,204)
Proceeds from LSTD sale (1987), office bldg. sale (1986)	132,977	21,000	.....
Salvage from other pty. retired	7,494	5,904	2,013
Net cash flow from (for) invest.	114,548	5,259	198,233
Financing:			
Borrow. under revolv. cr. commit. & commercial paper	65,599	40,000	125,000
Issuance of long-term notes	.....	.....	125,000
Other new debt issued	1,481	2,389	2,220
Issuance of common stock	.....	.....	49,488
Repay. under revolv. cr. commit. & commercial paper	(139,000)	.....	(57,000)
Extinguishment of mortgage bonds	(31,424)	.....	.....
U.S. Government debt repaid	.....	.....	(85,120)
Other debt payments	(20,250)	(21,814)	(22,094)
Cash dividends paid	.....	(5,694)	(9,104)
Changes in special funds	(4,894)	2,026	(539)
Net cash flow from (for) financing	128,488	16,907	127,851
Incr. (decr.) in cash and short-term invest.	1,864	(30,818)	(54,859)
Cash and short-term invest. beg. of year	1,339	32,157	87,016
Cash and short-term invest. end of year	3,203	1,339	32,157



## BALANCE SHEETS

## CONSOLIDATED BALANCE SHEET, AS OF DEC. 31.

(In thousands of dollars)

	1987	1986	1985	1984
<b>Assets:</b>				
Cash & short-term investment	3,203	1,339	32,157	87,016
Accounts receivable	121,491	144,122	112,967	41,329
Materials and supplies	29,299	36,073	46,753	18,640
Other current assets	15,916	17,146	10,596	7,936
<b>Total current assets</b>	<b>169,909</b>	<b>198,680</b>	<b>202,473</b>	<b>154,921</b>
Investment & advance affiliate	14,241	12,791	8,436	2,972
Special funds	6,503	1,609	3,635	3,096
Properties	974,236	1,219,369	1,250,929	734,371
Accumulated depreciation & amortization	251,806	343,825	334,281	301,913
<b>Net properties</b>	<b>722,430</b>	<b>875,544</b>	<b>916,648</b>	<b>432,458</b>
<b>Other assets &amp; def. chgs.</b>	<b>8,855</b>	<b>10,039</b>	<b>7,013</b>	<b>6,274</b>
<b>Total</b>	<b>921,938</b>	<b>1,098,663</b>	<b>1,138,205</b>	<b>599,721</b>
<b>Liabilities:</b>				
Accounts payable	141,358	154,829	150,077	47,354
Wages payable	9,603	11,113	10,384	4,669
Interest accrued	2,936	5,217	5,430	3,753
Dividends declared			2,847	2,276
Taxes accrued	11,494	10,593	9,649	5,841
Accrued acquisition related employee costs	43,373	46,743	58,586	
Other current liabilities	3,014	9,892	15,486	2,856
Current long-term debt	18,261	20,705	22,471	9,425
<b>Total current liabilities</b>	<b>230,039</b>	<b>259,092</b>	<b>274,930</b>	<b>76,174</b>
Long-term debt	291,382	406,671	378,776	95,923
Def. income taxes	82,455	90,465	127,465	140,071
Other liabilities and deferred credit	64,850	80,719	49,156	10,747
Common stock	156,887	156,887	156,887	107,449
Retained income	96,325	104,829	150,991	169,357
<b>Stockholders equity</b>	<b>253,212</b>	<b>261,716</b>	<b>307,878</b>	<b>276,806</b>
<b>Total</b>	<b>921,938</b>	<b>1,098,663</b>	<b>1,138,205</b>	<b>599,721</b>
<b>Net current assets</b>	<b>d60,130</b>	<b>d60,412</b>	<b>d72,457</b>	<b>78,747</b>

## Auditor's Report

The following is an excerpt from the Report of the Independent Auditors, Deloitte Haskins & Sells as it appeared in the 1987 Annual Report.

"In our opinion, such consolidated financial statements present fairly the financial position of the companies at Dec. 31, 1987 and 1986, and the results of their operations and the changes in their financial position for each of the three years in the period ended Dec. 31, 1987 in conformity with generally accepted accounting principles consistently applied during the period except for the changes, with which we concur, made as of July 1, 1986 in the method of accounting for the capitalization of ballast installations and made in 1987 in the method of accounting for pensions as described in Notes 1 and 10 to the Consolidated Financial Statements."

## LONG-TERM DEBT

## 1. Soo Line Corp. 10 3/4% notes, due 1995:

Rating — Baa3

AUTH. — \$125,000,000; outstg., Dec. 31, 1987, \$125,000,000.

DATED — Dec. 15, 1985 DUE — Dec. 15, 1995.

INTEREST — J&amp;D 15 to holders registered M31 &amp; N30.

TRUSTEE — First Bank (N.A.)

DENOMINATION — Fully registered, \$1,000 and any multiple thereof. Transferable and exchangeable without service charge.

CALLABLE — As a whole or in part from time to time, at the option of the Company, on and after Dec. 15, 1992 at 100 plus accrued interest.

SINKING FUND — None.

SECURITY — Not secured. The Corporation will not permit any Subsidiary to issue, assume or guarantee any notes, bonds, debentures or other similar evidences in indebtedness for money borrowed secured by a mortgage, lien, security interest, pledge or other encumbrance upon any property or asset of the Corporation or such subsidiary, whether now or hereafter acquired, without effectively providing that the Notes shall be secured equally and ratably with such Debt, so long as it shall be so secured, except that this restriction will not apply to (a) Mortgages affecting property of a corporation existing at the time it becomes a Subsidiary or at the time it is acquired by the Corporation or a Subsidiary; (b) Mortgages existing at the time of acquisition of the property affected thereby or incurred to secure payment of all or part of the purchase price of such property or to secure Debt incurred prior to, at the time of or within 180 days of acquisition to finance all or part of the purchase price of such property; (c) Mortgages to finance construction, placed in effect prior to, at the time of or within 180 days after completion of construction of new facilities; (d) Mortgages which secure only debt owing by a Subsidiary to the Corporation or a wholly-owned Subsidiary; (e) pledges or deposits to secure obligations under workmen's compensation laws or similar legislation, mechanic's or other like liens arising in the ordinary course of business, or statutory landlord's liens; (f) Mortgages existing on the date of the Indenture; and (g) any extension, renewal or replacement of any Mortgage referred to in the foregoing clauses (a) through (f), provided the principal amount so secured is not increased. Mortgages required by any contract or statute in order to permit the Corporation or a Subsidiary to perform any contract or subcontract made by it with or at the request of the United States or any State, or any department, agency, instrumentality or political subdivision of any of the foregoing and Mortgages in favor of such enti-

ties on property of the Corporation or a Subsidiary to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing, expanding or improving the property subject thereto or needed to permit the attachment or removal of any equipment designed primarily for the purpose of air or water pollution control, shall not be deemed to create Debt secured by a Mortgage.

Notwithstanding the above, the Corporation and one or more Subsidiaries may, without securing the Notes, issue, assume or guarantee Debt secured by a Mortgage which would otherwise be subject to the foregoing restrictions, provided that, after giving effect thereto, the aggregate amount of such Debt secured by Mortgages then outstanding does not exceed 10% of Consolidated Net Tangible Assets (as defined in the Indenture).

**DIVIDEND RESTRICTIONS** — The Corporation may not declare or pay any dividend or make any distribution in respect of any class of its capital stock, and the Corporation and its Subsidiaries will not purchase, redeem or otherwise acquire or retire for value any capital stock of the Corporation, if (a) at the time of such action an Event of Default under the Indenture has occurred and is continuing, or (b) if immediately after giving effect to such action the aggregate amount expended for all such purposes subsequent to September 30, 1985 would exceed the sum of: (i) the Consolidated Net Income of the Corporation and its Subsidiaries accrued subsequent to September 30, 1985, (ii) the aggregate net proceeds received by the Corporation from the issue or sale of its capital stock or warrants to purchase its capital stock subsequent to September 30, 1985, other than to a Subsidiary or in connection with the conversion of any Debt or capital stock, (iii) the aggregate net proceeds received by the Corporation from the issue or sale (other than to a Subsidiary) of any Debt of the Corporation since September 30, 1985 which thereafter has been converted into capital stock of the Corporation, and (iv) \$50 million.

**INDENTURE MODIFICATION** — Indenture may be modified, except as provided with consent of the holders of not less than 66 2/3% in principal amount of outstanding notes.

**RIGHTS ON DEFAULT** — Trustee, or 25% of notes outstg., may declare principal due and payable (30 day's grace for payment of interest.)

**LISTED** — On New York Stock Exchange.

**PURPOSE** — The proceeds of the Notes will be used primarily to repay certain indebtedness to the United States government assumed by the Corporation in connection with the Milwaukee Road Acquisition and subsequently restructured. The remainder of such proceeds and the proceeds from the sale of the Common Stock will be used to defray certain employee protection costs incurred by the Corporation in connection with the Milwaukee Road Acquisition and for general working capital purposes.

**OFFERED** — (\$125,000,000) at 100 plus accrued interest (proceeds to Co., 99.30) on Dec. 17, 1985 thru Shearson Lehman Brothers Inc.

**PRICE RANGE** — 1987, 110-110.

**2. Other Long-term Debt:** Outstg., Dec. 31, 1987, \$184,643,000 consisting of:

(1) \$58,408,000 Soo Line Corp. U.S. Government Note C, 13%, due Feb. 20, 1991 through 2005.

(2) \$34,821,000 Soo Line Corp. revolving credit commitment and commercial paper borrowings.

(3) \$40,484,000 capital lease obligations, 8% to 19%, due through 1999.

(4) \$50,930,000 equipment and other obligations, 4.5% to 14.5%, due through 1996.

Portions of the Lake States Transportation Division property sold were pledged as security under the Co.'s mortgages. Defeasance, satisfaction, and release of all mortgages were obtained on Oct. 11, 1987 as a result of arrangements which were made to call all of the outstanding bonds under the mortgages for redemption on Sept. 1, 1988. U.S. Government securities, sufficient (without reinvestment) to pay interest, principal and premium payments to and including the redemption date have been irrevocably deposited with the respective mortgage trustees as trust funds.

U.S. Government Note C reflects certain obligations assumed and subsequently restructured in connection with the Milwaukee Road Acquisition. Interest payments on Note C are deferred until 1991 and such deferrals are recorded as an increase in long-term debt as accrued.

The seven year \$150,000,000 Revolving Credit Commitment (Commitment) was entered into April 2, 1985, and has been modified by subsequent amendments. Interest rates for 1987 and 1986 were at market rates based on prime or certain short-term investment yields. Average interest rates during 1987 and 1986 were 8.3% and 7.9%, respectively, and the rate at Dec. 31, 1987 was 8.9%. The maximum amount outstanding was \$149,000,000 and the average borrowing was \$89,200,000 during 1987. During 1986 the maximum amount outstanding was \$108,000,000 and the average borrowing was \$86,500,000.

During 1987 as a result of the LSTD sale and also during 1986, the Co. failed to meet certain financial ratio covenants required by the Commitment, but obtained waivers from the lending institutions. Subsequently the agreement was amended and as of Dec. 31, 1987 includes minimum net worth, interest coverage, and debt/equity ratios with which, in the opinion of management of the Co., compliance is probable in the foreseeable future. For the twelve months ending Dec. 31, 1987, the Co.'s interest coverage exceeded the required minimum by \$13,600,000. Management's current 1988 business plans indicate an adequate margin of compliance when considering management has flexibility in controlling timing aspects of certain expenditures includable in the coverage formula. Accordingly, the outstanding borrowings under the Commitment continue to be classified as long-term.

Dividend payments are restricted until net income has been generated in the two preceding quarters and interest coverage exceeds the established minimum.

Beginning in 1987, the Commitment permits the issuance of up to \$25,000,000 of commercial paper supported by a letter of credit. Early in 1988 this was increased to \$50,000,000. Since the short-term maturities of the commercial paper are backed by the Commitment and are considered as borrowings for purposes of the Commitment covenants, such maturities are classified as long-term debt for financial reporting purposes.

The maximum permitted balance under the Commitment was \$105,000,000 at Dec. 31, 1987 and will decrease by \$6,250,000 per quarter thereafter. Sales of assets with net book values in excess of \$5,000,000 will trigger additional reductions.

At Dec. 31, 1987 approximately \$109,000,000 of the \$722,000,000 of net properties were pledged as security on equipment and capital lease obligations. In addition, certain property acquired in the Milwaukee Road acquisition is subject to restrictions under tax benefit transfer leases entered into prior to the acquisition.

## CAPITAL STOCK

**Soo Line Corp. common; par \$1:**  
AUTH—10,400,000 shs.; outstg., Dec. 31, 1987, 9,490,702 shs.; reserved for options, 300,000 shs.; par \$1.  
Canadian Pacific Ltd. owns approximately 56% of common stock.  
**VOTING RIGHTS**—Has one vote per share with right of cumulative voting for directors.  
**PREEMPTIVE RIGHTS**—None.  
**DIVIDENDS PAID**—

Paid by Soo Line Railroad Co.:

1967	\$0.60	1964	\$3.00	1965	\$2.75
1968	3.15	1967	1.50	1968-69	2.25
1970	2.00	1971	3.00	1972	1.87

On par shares after 2-for-1 split:

1972	0.62 1/2	1973	1.80	1974	4.08
1975	3.15	1976	2.45	1977	3.50
1978	4.10	1979	2.60		

On \$3.333 par shares after 3-for-1 split:

1979	0.76	1980	1.88	1981	2.75
1982	2.65	1983	2.10	1984	1.20
1985	0.30				

Paid by Soo Line Corp. on \$1 par shs.:

1985	0.00	1986	0.60	1987	Nil
------	------	------	------	------	-----

**TRANSF. AND DIVIDEND DISBURSING AGENT**—REGISTRAR—Bank of New York, New York.  
ISSUED—On Dec. 31, 1984 in exchange for Soo Line Railroad Co. common stock on a share-for-share basis.  
LISTED—On NYSE (Symbol: SOO).  
PRICE RANGE—1987 1986 1985 1984 1983  
High 30 1/2 36 1/4 32 3/4 29 1/2 36 1/4  
Low 12 1/4 18 3/4 22 3/4 22 3/4 26 3/4

## SOO LINE RAILROAD COMPANY

(Controlled by Canadian Pacific Limited through Soo Line Corp.)

### HISTORY

Corporate in Minnesota Oct. 19, 1949 as Duluth, South Shore & Atlantic Railroad Co. and acquired as of Nov. 1, 1949 entire properties and assets of Duluth, South Shore & Atlantic Ry. Co. and Mineral Range R.R. Co. pursuant to reorganization plan for those companies, consummated in 1949. For history of predecessors, see description of individual companies in Moody's 1949 Railroad Manual.

On Jan. 1, 1961 adopted present name and merged Minneapolis, St. Paul & Sault Ste. Marie Railroad Co. and Wisconsin Central Railroad Co.

See Moody's 1961 Transportation Manual for description and accounts of predecessor companies.

Acquisition of Midland Continental R.R. Co. by Co. and Northern Pacific Ry. Co., as authorized by ICC Sept. 30, 1966 provides for the Soo to acquire the 9,000 outstg. Midland Continental shs. and \$624,000 worth of gen. mtge. bds. in exchange for \$16,000 cash, \$600,000 Soo gen. mtge. bds. and 300 Soo shs.

Under a separate agreement, the Soo would then sell half of its Midland Continental stock and bonds to the Northern Pacific for 150 road com. shs. \$300,000 of Soo bonds and \$8,000 cash.

In Oct., 1970, Midland Continental R.R. Co. discontinued its operations and is no longer a railroad company.

In June 1982 acquired Minneapolis, Northfield and Southern Railway, Inc. (merged into Co. Jan. 1, 1986).

In Feb., 1985 acquired assets of Chicago, Milwaukee, St. Paul and Pacific R.R. Co. through its parent, Soo Line Corp. During 1985, the acquired assets were held by a separate company, The Milwaukee Road Inc., which was a wholly-owned subsidiary of Co.'s parent. Effective Jan. 1, 1986, The Milwaukee Road Inc. was merged into Co.

In Apr., 1987 Co. sold its Lake States Division to Wisconsin Central Ltd. for \$133,000,000. Sale included 1,800 miles of rail lines in Wisconsin, Upper Michigan, Northern Illinois, and Eastern Minnesota. Co. also granted an additional 200 miles of trackage rights over Co. rail lines for Wisconsin Central Ltd.

### CONTROL

Soo Line Corp. (see a preceding statement) holds 100% voting interest in railroad.

### OPERATING TERRITORY

Operates 5,809 miles of road serving Michigan, Wisconsin, Minnesota, North Dakota, eastern Montana, South Dakota, Illinois, Indiana, Missouri, Kentucky and Kansas.

### CAPITAL EXPENDITURES

Capital expenditures for equipment and improvements to physical plant in 1987 were \$26,538,000.

A total of 7 miles of welded rail, 212,000 new cross-ties and 384,000 cubic yards of ballast were installed.

Track maintenance plans for 1988 include an on-going program to upgrade the mainline system for greater train speeds and improve terminal operations. During 1987 St. Paul yard was upgraded for its semi-automatic freight car classification system and improvements were made to permit better mechanical inspection of trains. Soo began to convert the double track mainline to an upgraded single mainline track with centralized traffic control between St. Paul and Milwaukee.

Soo received 21 new 3,800 horsepower SD-60 locomotives in 1987 and will add 21 more units in 1988. Also in 1988, Soo plans to acquire 121 auto racks and 230 covered hoppers to meet needs already committed with customers.

### INDUSTRIAL EXPANSION

#### 1987 MAJOR PROJECTS

Rail Systems Inc., St. Paul, MN: Location of a steel scrap and railroad salvage yard with expected shipments of 300 cars per year.

American Italian Pasta Company, Excelsior Springs, MO: Milling and pasta facility that will open during the summer of 1988. Rail shipments of 200 cars per year are anticipated.

Soo Line Railroad, Cottage Grove, MN: New auto marshalling facility will handle up to 4,000 vehicles at one time with room for expansion. The facility is expected to ship 9,000 rail carloads per year.

Bunge Corp., Savage, MN: Track extension in order to connect to Soo Line's grain system. Shipments are anticipated at 2,000 carloads per year.

American-Canadian Distribution Centers, Inc., Minneapolis, Minn: Expanded track and unloading facilities to handle an additional 300 carloads of lumber per year.

Bottineau Farmers Elev., Gardena, ND: Purchased excess track from railroad to accommodate fertilizer expansion of 200 carloadings/yr.

Portage Industries, Inc., Portage, WI: Constructed track to serve their existing plant directly. 150 cars per year anticipated.

Pillsbury, Lake City, MN: Track changes made to accommodate their ability to receive 25 car unit trains. 300 additional carloadings anticipated.

North Central Grain, Bisbee, ND: Constructed a new 50 car grain loading terminal with connections to both the Soo and BN. Anticipate 400 additional carloadings per year.

Linwood Stone Products, Linwood, Ia: Track additions plus plant improvements made to handle increased volume of 200 carloads per year.

Johnson Beverage Company, Spencer, Ia: Purchased an existing warehouse and plans to ship up to 50 carloads per year.

Misc.: In addition to the above Co. had 12 grain elevators that expanded their facilities and trackage to handle 25 car unit loading, an additional 1200 cars of grain loading is anticipated because of these expansions.

#### 1988 MAJOR PROJECTS

Con Agra, Hastings, Mn: Plans to upgrade and expand its track and facilities in order to handle an additional 300 carloads per year.

Nerco Coal Co., Oden, In: Anticipates expanding trackage to handle an additional 200 carloads a year.

Rail Systems Inc., St. Paul, Mn: After just one year of operation they are planning to expand raising loadings to over 600 cars per year.

Midwest Brick, Plymouth, Mn: Purchased an existing facility on the Soo and expect to receive 250 cars/year.

American-Italian Pasta Co., Excelsior Springs, Mo: Construction of the milling and pasta facility is in the final stages of completion. Full production is scheduled for Aug. This facility will receive approximately 900 cars of North Dakota durum wheat a year.

Intermodal Facility, St. Paul, Mn: Negotiations have begun with the City of St. Paul to relocate the Soo's existing TOFC/COFC on Warner Road to a site yet to be determined.

Misc.: In addition to the above the Co. is currently working with 21 grain elevators to encourage expansion to 25 and 50 car loadings.

### MANAGEMENT

#### Officers

D.M. Cavanaugh, Chmn., Chief Exec. Off. & President  
E.J. Currie, Exec. Vice-Pres. Oper.  
J.A. Lee, Senior Vice-Pres. & Chief Fin. Off.  
P.M. McNamee, Senior Vice-Pres.—Distribution Services  
W.C. Serkland, Senior Vice-Pres. Admin. & Chief Legal Off.  
J.F. Johnson, Vice-Pres. Acctg. & Admin.  
H.J. Ness, Vice-Pres. Fin. Admin.  
J.M. Fox, Vice-Pres. Info. Systems  
M.D. Ross, Asst. Vice-Pres. Taxes & Asst. Treas.  
J.C. Miller, Contr. & Chief Acctg. Off.  
F.B. Albers, Gen. Council & Sec.  
J.A. Mogen, Treas.

#### Directors

D.M. Cavanaugh J.M. Fox  
E.J. Currie J.A. Lee  
W.C. Serkland P.M. McNamee

**Auditors:** Deloitte Haskins & Sells.

**No. of Employees:** 1987 average, 5,633.

**Office:** Soo Line Building, P.O. Box 530, Minneapolis, MN 55440. Tel: (612) 347-8000.

### TRACK MILEAGE OPERATED, DEC. 31, 1987

Company operates in Michigan, Wisconsin, Minnesota, North Dakota, South Dakota, Montana, Illinois, Indiana, Missouri, Kentucky, Kansas and Iowa.  
Total mileage of the Soo Line Railroad Co. on Dec. 31, 1987, consisted of 8,560 miles classified as follows:

By type of operation:	Road Track	Second Main	Other Main	Passing & Switching	Total
Owned	4,143	434	11	1,568	6,156
Jointly owned	119	6		142	267
Operated under lease for specified sum				5	5
Trackage rights	1,547	244	30	311	2,132
Grand total	5,809	684	41	2,026	8,560

**Miles of Road by States, Dec. 31, 1987:** Illinois, 456; Indiana, 322; Iowa, 656; Kansas, 7; Kentucky, 1; Michigan, 262; Minnesota, 1,894; Missouri, 156; Montana, 57; North Dakota, 1,279; South Dakota, 45; Wisconsin, 674; total, 5,809.

**Summary of Road Track by Weight of Rail in Pounds per Yard—1987 Mainlines:** 100 pound continuous welded and heavier, 1,447 miles; 85 pound jointed and heavier, 266 miles; Branchlines: 85 pound and heavier, 1,561 miles; other 988 miles; total 4,262.

### PHYSICAL FACTORS

#### Mileage, Equipment and Operation

Year Ended Dec. 31	Average Miles Operated	Extra Main Track	Locomotives	Passenger Cars	Freight and Company Cars	Freight to all Traffic (%)	Aver. Haul Miles	Revenue Freight Density	Average Revenue Freight Train Load (Tons)	Train Mile Earnings (\$)	Average Rev. per Passenger per Mile (Cents)	Average Revenue per Ton per Mile (Cents)
1977	\$4,589	92	226	Nil	12,100	98	420	2,215,863	2,312	49.40	Nil	2.08
1978	\$4,562	92	231	Nil	12,285	98	412	2,398,220	2,325	53.40	Nil	2.24
1979	\$4,512	92	233	Nil	12,139	98	412	2,441,516	2,385	62.91	Nil	2.57
1980	\$4,445	92	235	Nil	12,352	98	409	2,311,447	2,472	75.60	Nil	2.99
1981	\$4,433	92	233	Nil	12,429	98	411	2,156,553	2,548	87.86	Nil	3.39
1982	\$4,447	94	240	Nil	12,624	99	405	1,782,100	2,354	84.41	Nil	3.51
1983	\$4,438	93	241	Nil	12,723	97	434	1,980,847	2,528	84.31	Nil	3.25



## Classification of Securities Owned, as of Dec. 31, 1987

## Investments in Affiliated Companies

Class	No.	Issuing Company (% of control):	Total book value	Dividends or Interest Amt. credited to income
A1		Lake Sup. Term. & Tfr. Ry. (16 2/3)	\$87,000	
A1		Belt Ry. Co. of Chicago (8.33)	362,000	
A1		DRI&NW Railway Company (50)	477,000	
A1		Indiana Harbor Belt Railway Company (49)	1,359,000	
A1		Kansas City Terminal Railway Company (8.33)	50,000	
A1		Milwaukee Motor Transportation Company (100)		
A1		Trailer Train Company (2.70)	438,000	
		<b>Total A1</b>	<b>\$2,773,000</b>	
A2		CTH&SE Railway Company (\$4.02)		
A3		Tri-State Land Co. (100)	\$900,000	
A3		MT Properties Inc. (12.50)	91,000	
		<b>Total Class A</b>	<b>3,764,000</b>	
E1		Belt Ry. Co. of Chicago	3,294,000	
E1		DRI&NW Railway Company		
E1		Kansas City Terminal Railway Company	811,000	
E1		Milwaukee-Kansas City Southern Joint Agency	278,000	
E1		Western Railroad Association	75,000	
E1		Milwaukee Motor Transportation Company	1,724,000	
E3		MT Properties	184,000	
E3		Shoreham Equitable Insurance Ltd.	167,000	
		<b>Total Class E</b>	<b>6,533,000</b>	
		<b>Grand Total</b>	<b>\$10,297,000</b>	

Previously Minnesota Transfer Railway Company.

## (A) Stocks:

- (1) Carrier corporations — active.
- (2) Carrier corporations — inactive.
- (3) Non-carrier corporations — active.
- (4) Non-carrier corporations — inactive.

## (B) Bonds (including U.S. Government bonds):

## (C) Other secured obligations:

## (D) Unsecured notes:

## (E) Investment advances:

The subclassification of classes (B), (C), (D) and (E) is the same as provided in (A).

## LONG TERM DEBT — Maturities, Description and Ratings

## Equipment Trust Records and Ratings, as of Dec. 31, 1987

Name of Issue:	Interest Payable	Serially to	Out-standing	Original Issue	Cost of Equipment	Paid in Cash	Security	Rating
1. Soo Line R.R. equip. 7 3/4s	M&N 1	1988	\$515,000	\$7,725,000	\$9,661,000	20%	See text	A2
2. Soo Line R.R. equip. 9 1/2s	A&O 1	1989	1,120,000	8,400,000	10,586,000	20%	See text	A2
3. Soo Line R.R. equip. 9s	M&S 1	1990	1,560,000	7,800,000	9,776,040	20%	See text	A2
4. Soo Line R.R. equip. 8 1/4s	M&S 1	1991	2,020,000	7,575,000	9,505,400	20%	See text	A2
5. Soo Line R.R. equip. 8s	J&D 1	1991	1,680,000	6,300,000	7,890,000	20%	See text	A2
6. Soo Line R.R. equip. 7 1/2s	F&A 1	1992	3,925,000	11,775,000	14,780,000	20%	See text	A2
7. Soo Line R.R. equip. 8 1/4s	A&O 1	1993	6,000,000	15,000,000	18,757,000	20%	See text	A2
8. Soo Line R.R. equip. 9 1/2s	M&N 1	1994	5,075,000	10,875,000	13,648,000	20%	See text	A2
9. Soo Line R.R. equip. 11 1/4s	J&J 15	1995	12,800,000	24,000,000	30,405,740	20%	See text	A2
10. Soo Line R.R. equip. 13 3/4s	M&S 1	1996	8,820,000	14,700,000	18,455,000	20%	See text	A2

1. Soo Line R.R. Co. equipment 7 3/4s of 1974, due serially to 1988:

## Rating — A2

AUTH. — \$7,725,000; outstg., Dec. 31, 1987, \$515,000.

DATED — Nov. 1, 1973. DUE — \$515,000, annually, each Nov. 1, 1974-88.

INTEREST — M&amp;N 1 at office of trustee.

TRUSTEE — First National Bank of Minneapolis, Minn.

DENOMINATION — Coupon, \$1,000, registrable as to principal.

CALLABLE — Not callable.

SECURITY — Issued under the Philadelphia plan and secured by 8 diesel-electric locomotives with a rated capacity of 3,000 horsepower each, 200 100-ton covered hopper cars with roller bearings, 25 70-ton insulated box cars with cushioning devices and roller bearings, 100 77-ton single sheathed box cars with roller bearings, 25 100-ton bulkhead flatcars with roller bearings and 25 100-ton high side gondola cars with roller bearings having an estimated cost of \$9,661,000.

GUARANTEED — Unconditionally as to principal and interest by Soo Line Railroad Co., by endorsement.

OFFERED — (\$7,750,000), purchased at 99.213, were reoffered on Oct. 17, 1973 thru First Boston Corp., Halsey, Stuart & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith, Inc. and associates on a 8.25% to 7.75% yield basis.

2. Soo Line R.R. Co. equipment 9 1/2s of 1974, due serially to 1989:

## Rating — A2

AUTH. — \$8,400,000; outstg., Dec. 31, 1987, \$1,120,000.

DATED — Oct. 1, 1974. DUE — \$560,000, annually, each Oct. 1, 1975-89.

INTEREST — A&amp;O 1 at office of trustee.

TRUSTEE — First National Bank, Minneapolis, Minn.

DENOMINATION — Coupon, \$1,000, registrable as to principal.

CALLABLE — Not callable.

SECURITY — Issued under the Philadelphia plan and secured by 12 diesel electric locomotives with a rated capacity of 3,000 horsepower each, 84 100-ton covered hopper cars with roller bearings, 108 77-ton single sheathed boxcars with roller bearings, 50 70-ton flatcars with roller bearings, and 53 100-

ton high-side gondola cars with roller bearings having an estimated cost of \$10,586,000.

GUARANTEED — Unconditionally as to principal and interest by Soo Line R.R. Co. by endorsement.

OFFERED — (\$8,400,000), purchased at 99.351, were reoffered on Oct. 1, 1974 thru Merrill Lynch, Pierce, Fenner & Smith, Inc. and Halsey, Stuart & Co., Inc. and associates on the following yield basis:

1975-78.....9.15	1979-80.....9.20	1981-82.....9.25
1983.....9.35	1984.....9.45	1985.....9.50
1986.....9.55	1987-89.....9.60	

3. Soo Line R.R. Co. equipment 9s of 1975, due serially to 1990:

## Rating — A2

AUTH. — \$7,800,000; outstg., Dec. 31, 1987, \$1,560,000.

DATED — Sept. 1, 1975. DUE — \$520,000, annually on each Sept. 1, 1976-90.

INTEREST — M&amp;S 1 at office of trustee.

TRUSTEE — First National Bank, Minneapolis, Minn.

DENOMINATION — Coupon, \$1,000, registrable as to principal.

CALLABLE — Not callable.

SECURITY — Issued under the Philadelphia plan and secured by three diesel-electric locomotives with a rated capacity of 3,000 horsepower each, 100 100-ton covered hopper cars with roller bearings, 120 77-ton single sheathed box cars with roller bearings, and 100 100-ton open top triple hopper cars with roller bearings having an estimated cost of \$9,776,040.

GUARANTEED — Unconditionally as to principal and interest by Soo Line R.R. Co., by endorsement.

OFFERED — (\$7,800,000), purchased at 100.0753, were reoffered on July 29, 1975 thru Salomon Brothers and associates on a 7.75% to 9.00% yield basis.

4. Soo Line R.R. Co. equipment 8 1/4s of 1976, due serially to 1991:

## Rating — A2

AUTH. — \$7,575,000; outstg., Dec. 31, 1987, \$2,020,000.

DATED — Sept. 1, 1976. DUE — \$505,000, annually, each Sept. 1, 1977-91.

INTEREST — M&amp;S 1 at office of trustee.

TRUSTEE — First National Bank, Minneapolis, Minn.

DENOMINATION — Coupon, \$1,000, registrable as to principal.

CALLABLE — Not callable.

SECURITY — Issued under the Philadelphia plan and secured by 200 100-ton covered hopper cars with roller bearings and 100 70-ton insulated box cars with roller bearings having an estimated cost of \$9,505,400.

GUARANTEED — Unconditionally as to principal and interest by Soo Line R.R. Co., by endorsement.

OFFERED — (\$7,575,000), purchased at 100.5295, were reoffered on Aug. 5, 1976 thru Merrill Lynch, Pierce, Fenner & Smith, Inc., First Boston Corp. and Bache Halsey Stuart Inc. and associates on a 6.25% to 8.35% yield basis.

5. Soo Line R.R. Co. equipment 8s of 1976, due serially to 1991:

## Rating — A2

AUTH. — \$6,300,000; outstg., Dec. 31, 1987, \$1,680,000.

DATED — Dec. 1, 1976. DUE — \$420,000, annually, on each Dec. 1, 1977-91.

INTEREST — J&amp;D 1 at office of trustee.

TRUSTEE — First National Bank, Minneapolis, Minn.

DENOMINATION — Coupon, \$1,000; registrable as to principal.

CALLABLE — Not callable.

SECURITY — Issued under the Philadelphia plan and secured by 100 100-ton covered hopper cars with roller bearings and 200 100-ton high-side gondola cars with roller bearings having an estimated cost of \$7,890,000.

GUARANTEED — Unconditionally as to principal and interest by Soo Line R.R. Co.

OFFERED — (\$6,300,000), purchased at 100.775, were reoffered on Nov. 9, 1976 thru First Boston Corp. and associates on a 5.75% to 8.15% yield basis.

6. Soo Line R.R. Co. equipment 7 1/2s of 1977, due serially to 1992:

## Rating — A2

AUTH. — \$11,775,000; outstg., Dec. 31, 1987, \$3,925,000.

DATED — Aug. 1, 1977. DUE — \$785,000 annually, on each Aug. 1, 1978-92.

INTEREST — F&amp;A 1 at office of trustee.

TRUSTEE — First National Bank of Minneapolis.

DENOMINATION — Coupon, \$1,000, registrable as to principal.

**BUTTE, ANACONDA & PACIFIC RAILWAY CO.**

**History:** Incorporated Oct. 1, 1892, under laws of Montana. Built to connect the copper mines at Butte with the reduction works at Anaconda.

On Apr. 30, 1985, Co. sold buildings and equipment to Rarus Railway Co. and donated land and track to state of Montana.

**Control:** Entire capital stock is owned by Atlantic Richfield Co. (see Moody's Industrial Manual), and road is operated as a subsidiary of that company.

**Line of Road:** As reported: Single or 1st Main, 43. Second & additional, 11; Way Switching, 1; Yard Switching, 60; total, 115 miles.  
Standard gauge. Rail, 75, 80, 85, 90, 100, 110, 115 and 119 lbs.

**Equipment:** Locomotives: Diesel, 8; 343 freight and company cars. Passenger service discontinued in 1955.

**Officers**

J.F. Gardner, Pres.  
R.M. Solari, Sec., Treas. & Contr.

**Directors**

J.F. Gardner  
R.M. Solari  
E.C. Tidball

Annual Meetings: In June.

General Counsel: F. Brophy.

Office: 300 West Commercial Ave., Anaconda, MT 59711.

**Capital Stock:** 1. Butte, Anaconda & Pacific Railway Co. stock; par \$100.

**AUTHORIZED:**—100,000 shares; issued and outstanding, Dec. 31, 1983, 80,000 shares; par \$100.

**OWNERSHIP:**—All owned by Atlantic Richfield Co.

**DIVIDENDS PAID:**

1896	\$.60	1912	\$.42	1913	Nil
1914	1.50	1915	5.00	1916-18	12.00
1919	6.00	1920-24	Nil	1925	15.00
1926-28	Nil	1929	15.00	1930-41	Nil
1942	2.00	1943	3.00	1944	4.00
1945	6.09	1946-69	Nil	1970	6.00
1971-72	Nil	1973	7.50	1974-80	Nil
1981	9.375	1982	4.375	1983-86	Nil

(1) Paid on 10,000 shares.

(2) Paid \$3 on 10,000 shares and \$1.20 on 25,000 shares.

**CAMAS PRAIRIE RAILROAD CO.**

**History:** Incorporated under the laws of Oregon, Nov. 4, 1909 for the purpose of operating for Oregon-Washington Railroad & Navigation Co. and Northern Pacific Ry. Co.

**Mileage:** Road extends from Riparia, Wash., to Grangeville, Idaho; Spalding to Stites, Idaho and Orofino to Headquarters, Idaho, 256.37 miles; sidings & etc. 56.19 miles. Total, 312.56 miles. Standard gauge. Rail, 56 to 131 lbs. average 103 lbs.

**Control:** Jointly by Burlington Northern, Inc. and Union Pacific R.R. Co. (Lessee & Operator of Oregon-Washington Railroad & Navigation Co. properties).

**Officers**

E.C. May, Pres.  
W.W. Francis, Vice-Pres.  
K.T. Borman, Secretary  
M. McManus, Treasurer  
L.L. Carter, Manager

**Directors**

W. Francis  
E.C. May  
K.T. Borman  
R.W. Eubanks

Annual Meeting: In December.

Offices: P.O. Box 1166, 325 Mill Road, Lewiston, ID 83501. Tel: (208) 743-2940.

**Income Account:** Railway operating revenues and expenses and any income or profit and loss items are apportioned to the Burlington Northern Inc. and the Union Pacific Railroad Company monthly.

**Capital Stock:** Camas Prairie Railroad Co. Stock; par \$100.

**AUTHORIZED AND OUTSTANDING:**—Dec. 31, 1980, 1,000 shares; par \$100.

**OWNERSHIP:**—Owned jointly by the Burlington Northern Inc. and the Oregon-Washington R.R. & Navigation Co.

**DIVIDENDS:**—No dividends paid.

**TRANSFER AGENT AND REGISTRAR:**—At Company's office, Portland, Ore.

**CAMBRIA & INDIANA RAILROAD CO.**

**History:** Incorporated under laws of Pennsylvania, June 15, 1904, as the Blacklick & Yellow Creek R.R., name being changed to above April 20, 1911.

**Control:** Bethlehem Steel Corp. owns 100% of company's outstanding capital stock.

**Line of Road:** The road extends from Manver to Colver, Pa., 18.66 miles; from Elkdale Jct. to Rexis, Pa., 4.19 miles; Rexis Jct. to Nanty Glo, Pa., 7.70 miles; Beth to Cambria Slope, Pa., 1.58 miles; sidings, 19.80 miles; a total of 57.36 miles; Nanty Glo to Steel, 5.43 miles.

Standard gauge. Rail, 100, 115, 136, 131 and 132 lbs.

**Equipment:** Locomotives, 18; cars, freight, 962; cabooses, 2; work cars, 7.

**Officers**

T.H. Semmel, Pres.  
J.M. Hamrick, Sec.  
H.J. Umberger, Vice-Pres.  
D.S. Reimer, Vice-Pres.  
R.A. Ravier, Treas.

**Directors**

D.S. Reimer  
H.J. Umberger  
J.M. Hamrick  
T.H. Semmel

Annual Meeting: In Feb.

General Office: 1275 Daly Ave., Bethlehem, PA 18015.

**Capital Stock:** Cambria & Indiana Railroad Co. stock; par \$100.

**AUTHORIZED:**—20,000 shares; outstanding, Dec. 31, 1983, 15,000 shares; par \$100.

**OWNERSHIP:**—100% of stock owned by Bethlehem Steel Corp.

**DIVIDENDS:**

1916	\$.20	1917-19	Nil	1920	\$.80
1921	Nil	1922-25	\$.10	1926	25.00
1927	16.00	1928	18.00	1929	26.00
1930	36.00	1931	20.00	1932	26.00
1933	152.00	1934	36.00	1935	82.66 2/3
1936	50.00	1937	40.00	1938	41.00
1939	50.00	1940-41	52.00	1942-43	34.00
1944-46	36.00	1947-49	26.00	1950-52	16.00
1953	28.00	1954-55	40.00	1956	24.00
1957	40.00	1958	90.00	1959	52.00
1960	96.00	1961	66.67	1962	46.67
1963	53.33	1964	96.00	1965-66	40.00
1967	50.00	1968	20.00	1969	66.67
1970	46.67	1971	50.00	1972	46.67
1973	50.00	1974	43.33	1975-78	Nil
1979	133.33	1980	100.00	1981	Nil
1982	230.00	1983	266.67	1984-86	Nil

(1) Paid 25% stock dividend in 1918.

**TRANSFER AGENT AND REGISTRAR:**—Company's office.

**CAPITAL PROPERTIES, INC.**

**History:** Incorporated in Delaware July 8, 1968.

On July 31, 1969, merger of Providence and Worcester Railroad Co. (incorporated in Massachusetts and Rhode Island in 1844 as a Consolidation Nov. 25, 1845 of two companies of the same name) into company named Provident & Worcester Co. was consummated pursuant to merger agreement approved at stockholders meeting Sept. 11, 1968 and by ICC Feb. 17, 1969. Merger was effected through share-for-share exchange of stock. Present name adopted July 31, 1984.

Pursuant to above merger, the Delaware company acquired all assets and assumed all liabilities of merged company.

On Feb. 3, 1973, Co. resumed operations as an independent railroad after 35 yrs. as a leased line railroad.

In Aug., 1973, acquired a 22-mile branch line running from Worcester to Gardner, Mass. for \$316,000. Assumed full operations in Oct., 1974.

In Apr., 1976, acquired Worcester, Ma. to Plainfield, Ct., 47 miles; Plainfield to Willimantic, Ct., 23 miles and 38 miles of other branches.

In June, 1980, acquired from Consolidated Rail Corp. approximately 30 miles of line between Plainfield, Conn. and Groton, Conn.

In Sept., 1980, acquired approximately 10 acres of land and a large building along its railroad right-of-way in Plainfield, Conn.

On Oct. 31, 1982, Warwick Railway Co. and Moshassuck Valley Railroad Co. were acquired by Providence and Worcester Railroad Co.

On Feb. 11, 1983, Red Bridge Terminal Co. was merged with Co.'s Providence & Worcester Realty Co. subsidiary, with Red Bridge being the surviving corporation. (Merged July 31, 1984).

**Reorganization:** Pursuant to an agreement of merger and plan of reorganization dated as of Aug. 15, 1980, which was approved by the shareholders of Co. on Sep. 24, 1980, Co. was merged with and into Providence and Worcester Railroad Company, effective Oct. 1, 1980. Under the terms of the agreement of merger, each outstanding sh. of Co. com. stock was converted into 20 shs. of com. stock of Providence and Worcester Holding Company, which changed its name effective Oct. 1, 1980 to Providence and Worcester Company. Co. received from the IRS a ruling to the effect that no gain or loss will be recognized by Co. shareholders upon the exchange of shs. The bases and holding periods of the Providence & Worcester Co. shs. received by Co. shareholders will be the same as the bases and holding periods of Co. shs. surrendered in exchange therefor.

**Business:** Co. owns real estate in downtown Providence suitable for development for non-railroad purposes and a petroleum storage facility in East Providence, Rhode Island. In addition, the Company conducts business operations as an interstate freight carrier through its principal subsidiary, Providence and Worcester Railroad Co.

**Subsidiaries**

Providence and Worcester Rail Co.

Tri-State Displays, Inc.

**Line of Road:** The Railroad is an interstate freight carrier conducting railroad operations in Rhode Island, Massachusetts and Connecticut. No regularly scheduled passenger service is provided by the Railroad. It operates over 389 miles of trackage of which it owns 192 miles. The Railroad has common carrier trucking rights to operate within 31 states and is actively operating in 11

states, with its terminal facilities located in Pawtucket, Rhode Island.

The Railroad interchanges freight traffic with Conrail at Worcester, Massachusetts' with the Boston and Maine Railroad at Gardner, Massachusetts; and with the Central Vermont Railway at New London, Connecticut. Through its connections, the Railroad links approximately 90 communities on its lines. There are three principal classification yards all located on lines of the Railroad in Worcester, Massachusetts, Valley Falls, Rhode Island and Plainfield, Connecticut. During the year 1986, the Railroad handled a total of 23,095 cars in road haul and switching service.

**Officers**

J.R. DiStefano, Pres.  
L. Eder, Vice-Pres.  
B.J. Dreyer, Sec. & Treas.

**Directors**

Antonio Asquino  
J.R. DiStefano  
E.A. Malo  
O.R. Harrold  
D.F. Mullane  
L. Eder  
T.P. Cohen

**Auditors:** Laventhol & Horwath.

**Annual Meeting:** Last Wed. in Apr. in Providence, R.I.

**No. of Stockholders:** Mar. 2, 1987, 700.

**Office:** 20 Westminster St., Providence, RI 02901.

**Tel:** (401) 331-0100.

**Consolidated Income Account, years ended Dec. 31 (\$000 omitted):**

	1986	1985
Oper. revs., etc.	13,362	11,937
Other revs.	4,512	2,360
Total revenues	17,874	14,297
Oper. expenses	15,295	13,773
Interest expense	424	450
Write-down	2,904	
Net bef. taxes	2,155	2,844
Income taxes	540	386
Net income	1,615	2,458
Prev. ret. earnings	26,088	28,753
Dividends	207	207
Retained earnings	27,496	26,088
Earn. com. share	\$1.56	\$2.37
Yr. end com. shs.	1,034,968	1,034,968

**Consolidated Balance Sheet, as of Dec. 31 (\$000 omitted):**

	1986	1985
Assets:		
Cash, etc.	1,316	1,023
Accts., etc. receiv.	4,115	2,802
Material & supplies	841	807
Prepayments	149	191
Total current	6,421	4,825
Net prop., etc.	55,156	55,156
Other assets	1,263	305
Total	62,840	60,346
Liabilities:		
Debt due	747	618
Accts. payable	5,272	3,993
Accruals	1,011	1,128
Total current	7,030	5,739
Long-term debt	2,364	3,614
Unrem. car hire	5,758	5,758
Deferred income	1,742	1,329
Def. income taxes	6,504	5,964
Common stock (\$1)	1,035	1,035
Cap. in excess par val.	11,468	11,468
Retained earnings	27,496	26,088
Unearn. compens.	4,657	4,649
Total	62,840	60,346
Net current assets	4,609	4,914
Depreciation:	1986, \$12,890,000; 1985, \$11,086,000.	
From exercise of option to repurchase.		

**Long Term Debt:** Outstanding Dec. 31, 1986, \$3,111,000 consisting of:

(1) \$447,000 variable rate, payable to bank principal due annually, interest due semi-annually to 1994.

(2) \$1,614,000 obligations under capital leases.

(3) \$1,050,000 variable interest rate, 1/2% over prime, payable to have, secured by note to 1991.

**Capital Stock:** Capital Properties, Inc., stock; par \$1.

**AUTHORIZED:**—1,400,000 shares; outstanding Dec. 31, 1986, 1,034,968 shares; par \$1.

**DIVIDENDS:**—(On old Providence and Worcester Co. stk.): Regular dividends of 10% paid quarterly, Mar. 29, etc., to stock of record about Mar. 12, etc., to Oct. 1, 1937, incl.; 1938, 2 1/2%; 1939 and 1940, 6%; 1941, 9%; 1942 to 1947 incl., 10%; 1948, 24%; 1949 to 1960, incl., 10%; 1961, 2 1/2%; 1962 and 1963, none; 1964, 7 1/2%; 1965 and 1966, 15%; 1967, 2 1/2%; 1968-78, nil; 1979, 4%.

1980, \$2.00

**On New Providence and Worcester Co. Stk.:**

1980, \$0.10; 1981-83, \$0.20; 1984, \$0.10

**On Capital Properties, Inc. Stk.:**

1984, \$0.10; 1985-86, \$0.20; 1987, \$0.15

**TO Aug. 27.**

**TRANSFER AGENT:**—Fleet National Bank, Providence, R.I.

**REGISTRAR:**—Rhode Island Hospital Trust, National Bank, Providence, R.I.

**TRADED:**—OTC.

**PRICE RANGE:**

	1986	1985	1984	1983	1982
High	27 1/2	31	19	19	19
Low	21	20	15 1/2	15 1/2	15 1/2



## UNIVERSAL-ROYAL APEX LIMITED PARTNERSHIP

RECEIVED

## LIMITED PARTNERSHIP AGREEMENT

AND

## CERTIFICATE OF LIMITED PARTNERSHIP

JAN 20 1983  
JAN 5 AM 10:31  
SECRETARY OF  
STATE

THIS LIMITED PARTNERSHIP AGREEMENT AND CERTIFICATE OF LIMITED PARTNERSHIP is made and entered into as of January 1, 1983, by and among Royal Apex Corporation, a Montana corporation having its principal office in Helena, Montana (the "General Partner") and the persons and corporations listed, with their respective capital contributions, on the signature pages hereof under the heading LIMITED PARTNERS (collectively, the "Limited Partners" and, individually, a "Limited Partner"), who hereby sign and acknowledge this Limited Partnership Agreement (the "Agreement") and Certificate of Limited Partnership (the "Certificate") and, by filing this Agreement and Certificate with the Secretary of State of the State of Idaho, form a limited partnership (the "Partnership") pursuant to Sections 53-201 through 51-267 of the Idaho Code (the "Statute"), under the following terms and conditions. (The General Partner and the Limited Partners are sometimes hereinafter referred to collectively as the "Partners" and individually as a "Partner".)

1. BUSINESS. The business of the Partnership shall be conducted under the name: Universal-Royal Apex Limited Partnership. The business and purposes of the Partnership are to acquire, own, invest in, preserve, salvage and sell the real and personal property located in the State of Montana, described as Segments II, III, IV and VI of property (the "Property") of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company (the "Railroad") in an invitation to Bid dated July 16, 1982, copies of which have been delivered to all Partners. The Partnership shall not engage in any other business or activity.

There shall be one General Partner, initially Royal Apex Corporation, a Montana corporation. Successor General Partners may be brought into the Partnership as provided below. A General Partner may be a person, a partnership or a corporation. A separate accounts in each capacity will be maintained. All General Partners must enter into this Agreement and Certificate and must comply with Section 7701(a) (2) of the U. S. Internal Revenue Code (the "Code") and the Regulations thereunder. No Limited Partner, or any group of Limited Partners, nor the Partnership may invest in or own 20% or more of any General Partner.

In connection with its aforesaid business, the Partnership, in the sole discretion of the General Partner, may temporarily invest and reinvest its funds, which are not otherwise invested, in interest bearing accounts and certificates of deposit with banks of recognized standing, in government securities or in daily interest or other income producing mutual funds.

The principal place of business of the Partnership shall be at 416 River Street, P. O. Box 886, Wallace, Idaho 83873, or such other place within Idaho as the General Partner may designate from time to time by giving written notice thereof to all Limited Partners.

2. LIMITED PARTNERSHIP TERM. The term of the Partnership shall commence upon the filing of this Agreement and Certificate in the office of the Secretary of State of the State of Idaho. The Partnership shall terminate and dissolve on December 31, 1987, unless otherwise terminated and dissolved upon the occurrence of any of the events set forth in Section 12.

3. CAPITAL CONTRIBUTIONS; ACCOUNTS AND WITHDRAWALS. Each Partner shall contribute to the capital of the Partnership the amount set opposite his name on the signature pages hereto, payable upon execution hereof by cash or collectible check payable to the Partnership. Exhibit A hereto lists each Partner's capital contribution and percentage interest.

Individual capital and current income accounts shall be maintained on the books of account of the Partnership for each General Partner and each Limited Partner. No Partner shall have the right, except as provided in Section 8(c), to withdraw any part of the capital he contributed to the Partnership until the termination, dissolution and winding up of the Partnership, except as distributions pursuant to Section 5 may represent returns of capital, in whole or in part. No Partner shall be obliged to make any capital contribution to the Partnership except as set forth in this Section 3. No interest shall be paid by the Partnership on capital accounts.

Prior to the date hereof, certain Partners have advanced funds on behalf of the Partnership with respect to the aforesaid Real Estate Sale Contract. These advances are described on Exhibit B hereto and shall be repaid by the Partnership promptly after the acquisition by the Partnership of the Property.

4. ACCOUNTING; LIABILITY OF LIMITED PARTNERS.

A. Accounting. The calendar year shall be the fiscal year of the Partnership. The net income or net loss of the Partnership shall be determined for each year on the cash method of accounting, which shall also be employed in the preparation of the income tax returns filed by the Partnership, and in accordance with generally accepted accounting principles, consistently applied.

Complete and accurate books of account of the business of the Partnership shall be kept under the supervision of the General Partner. Such books of account shall be open to inspection and copying by any Partner, or his authorized representative, at any reasonable time during business hours.



B. Financial Statements and Tax Returns. The financial statements of the Partnership shall be prepared at and as of the close of each fiscal year by accountants employed by the General Partner. Such accountants shall, within 90 days after the end of each fiscal year, report on the balance sheet of the Partnership as at the close of such year and on an income statement of the Partnership for the fiscal year then ended. A copy of each such report shall be forthwith distributed to each Partner. The General Partner may in its sole discretion engage certified public accountants to audit the Partnership's financial statements, but it is contemplated that audits will not normally be required.

The General Partner shall cause to be properly prepared by the Partnership's accountants and timely file the federal, and any required state or local, income tax returns of the Partnership for each fiscal year. A copy of the schedules from each such return, setting forth each Partner's share of each item of income, gain, loss, credit or deduction, which such Partner may be required to report on his personal income tax returns, shall be furnished to each Partner within 90 days after the end of each fiscal year.

C. Liability of Limited Partners. No Limited Partner shall be liable for any obligations of the Partnership or for any net losses of the Partnership, except as the amount contributed by him or his transferor to the capital of the Partnership is available for the satisfaction of such obligations or to bear such losses.

## 5. DISTRIBUTIONS.

A. Allocation of Profits and Losses. The Net Profits or Net Losses incurred by the Partnership during each year shall be allocated among the Partners in proportion to their respective capital accounts, as adjusted from time to time hereunder.

B. Distributions. All distributions of cash or other Partnership property to the Partners hereunder shall be made to the Partners in proportion to their respective capital accounts as adjusted from time to time. The General Partner may, in his sole discretion, distribute any available cash flow of the Partnership which is not required, in his sole discretion, for the business of the Partnership.

The General Partner may, in its sole discretion, set aside a reasonable cash reserve for working capital, expenses and liabilities of the Partnership.

C. Business Opportunities. Limited Partners acknowledge that General Partner and its Parent Royal Apex Silver, Inc. have interest in developing a second line of business. All railroad salvage opportunities which arise during the term of this Agreement and/or brought to attention of any Limited Partner, its officers, agents or employees shall be presented to Partnership for a decision as to whether Limited Partners desire to participate in such additional salvage opportunities.

6. MANAGEMENT.

A. General Partner. The General Partner shall have exclusive control and management of the Partnership business and shall have exclusive power and authority to perform all acts necessary or desirable to conduct such business, subject to the provisions of this Agreement and of applicable law.

The General Partner shall devote so much of its time to the affairs of the Partnership as it, in its discretion, deems necessary and as may reasonably be required for the Partnership's welfare and success. Any Partner may engage independently or with others in other business ventures of every nature and description, including any of the types of businesses in which the Partnership invests. The General Partner and its affiliates may engage independently in activities similar to the activities proposed to be carried on by the Partnership. Neither the Partnership nor any other Partner shall have any rights or obligations in and to such other ventures, or in and to any net income or gains derived from them. No Partner shall use the Partnership name in any way except for the transaction of the business authorized under this Agreement.

The General Partner shall not receive any salary or other compensation for its services, as such, except for its participation in any net income and net gains of the Partnership, but it shall be entitled to current reimbursement of all reasonable expenses incurred by it in connection with the business of the Partnership. The Partnership shall, however, pay office and administrative expenses as provided in Section 6C.

The General Partner shall not, without the prior written consent of all the Limited Partners, take any of the following actions:

(i) admit any person to the Partnership as a Limited Partner;

(ii) increase of the compensation of the General Partner;

(iii) sell, exchange or transfer substantially all of the assets of the Partnership;

(iv) confess a judgment against the Partnership or assign substantially all of the assets of the Partnership in a trust or for the benefit of creditors;

(v) do any act which would make it impossible to carry on the ordinary business of the Partnership; or

(vi) possess Partnership property, or assign the rights of the Partnership in specific property, for other than a Partnership purpose.



The General Partner, acting for and on behalf of the Partnership and all the Partners, shall, subject to the terms and conditions of this Agreement, have the specific rights and powers to:

(i) authorize and approve all actions and execute all documents and instruments on behalf of the Partnership, to effectuate the purposes and business of the Partnership;

(ii) to acquire by purchase, lease or otherwise any real or personal property which may be necessary, convenient or incidental to the accomplishment of the purposes of the Partnership, including, without implied limitation, the acquisition of the Property pursuant to the terms of a certain Real Estate Sale Contract between the Railroad and Universal Wood & Metal, Inc. ("Universal"), an Idaho corporation which is a Limited Partner, a copy of which Contract is attached hereto as Exhibit A (which Contract has been assigned to the Partnership pursuant to a form of Assignment attached hereto as Exhibit B);

(iii) to operate, maintain, finance, own, invest in, sell, convey, assign, mortgage or lease any real estate and any personal property necessary, convenient or incidental to the accomplishment of the purposes of the Partnership;

(iv) to borrow money (from any affiliates of any Partner or otherwise) and issue evidences of indebtedness in furtherance of any or all of the purposes of the Partnership, and to secure the same by mortgage, security interest or other lien on the Property or any other assets of the Partnership;

(v) to prepay in whole or in part, refinance, recast, increase, modify or extend any mortgages affecting the Property and in connection therewith to execute any extensions, renewals, or modifications of any such mortgages on the Property;

(vi) to employ any person or entity, including any Partner and any affiliate of a Partner, to develop and to sell the Property, or provide other necessary services to the Partnership, and to pay reasonable compensation for such services, including, without implied limitation, such employment as is contemplated pursuant to the other provisions hereof;

(vii) to enter into, perform and carry out contracts of any kind (including contracts with affiliates) necessary to, in connection with or incidental to, the accomplishment of the purposes of the Partnership;

(viii) to execute agreements with respect to the sale of all or any part of the Property, and, in particular, with respect to the sale of portions of the rails and other steel and railroad ties and other wood comprising a part of the Property; and

(ix) to enter into any kind of activity and to perform and carry out contracts of any kind necessary to, or in connection with, or incidental to, the accomplishment of the purposes of the Partnership, so long as said activities and contracts may be lawfully carried on or performed under the laws of the State of Idaho.

B. Limited Partners. No Limited Partner shall take any part in the control of the business of the Partnership, and no Limited Partner shall have any power or authority to act for or on behalf of the Partnership in any respect whatsoever, except as specifically permitted by law and by this Agreement.

The Limited Partners shall have no right to remove the General Partner (except by unanimous written consent), compel his withdrawal from the Partnership, or elect additional General Partners. Without the consent of all the Limited Partners, the General Partner may not

(i) terminate the Partnership by voluntarily withdrawing from the Partnership;

(ii) amend this Agreement, other than to admit additional Limited Partners or to accept additional capital contributions in the manner herein set forth; or

(iii) admit additional General Partners.

C. Project Administration. The General Partner is authorized to cause the Partnership to employ or engage the services of such accounting, supervisory and administrative firms or personnel as may be necessary or desirable for conducting the business of the Partnership. Such services shall be provided at cost, when provided by any Partner or the affiliates of any Partner, and where provided by third parties shall be paid for at commercially reasonable rates.

It is contemplated that monthly unaudited financial statements will be made available to the Partners for each calendar month by the 20th day of the following month. The Partnership shall require two authorized signatures on all checks and orders for payment or transfer of funds of the Partnership. Further, the Partnership shall establish other reasonable procedures for the safekeeping and security of its assets, including but not limited to "No Trespassing" posting of its real property and watchmen for its salvage yard.

D. Management Committee. The General Partner may from time to time seek the advice of a Management Committee, as selected from time to time by at least 67% in interest of the Partners. No member of the Committee shall have any liability as a general partner or otherwise for any obligations of the Partnership and shall have the benefits of indemnification and insurance on the same basis as is provided for the General Partner under Section 7 hereof. The Committee shall initially have six members, namely: Justin L. Rice, David E. P. Lindh, Dennis E. Wheeler, Gary L. Rice, J. C. Marshall and Wilfred E. Gardner, Jr.



The Committee shall establish reasonable procedures for meetings, which shall be held on approximately a quarterly schedule. Unless other procedures are established or agreed to, the latest edition of Robert's Rules of Order shall be deemed to govern the activities of the Management Committee.

E. Salvage and Sales Agreements. It is contemplated that the Partnership will enter into mutually acceptable agreements with Universal Wood & Metal, Inc. with respect to: (1) the salvage work, pursuant to a Railroad Salvage Contract (the "Salvage Contract") and (2) services as sales agent for sale of the salvaged assets of the Partnership, pursuant to a Sales Agent Agreement (the "Sales Agreement"). Copies of the forms of the aforesaid Contract and Agreement have previously been furnished to all Partners.

7. INDEMNIFICATION AND INSURANCE. The General Partner shall not be liable, responsible or accountable in damages to any Limited Partner for any act or omission on behalf of the Partnership performed or omitted by him in good faith and in a manner reasonably believed by him to be within the scope of his authority granted by this Agreement and in the best interests of the Partnership, unless he has been responsible for gross negligence or willful misconduct with respect to such acts or omissions. Any loss or damage incurred by the General Partner by reason of any act or omission of his (not involving gross negligence or willful misconduct) shall be paid by the Partnership to the extent that Partnership net assets are available therefor, and the Partnership shall indemnify and hold the General Partner harmless (including the legal representatives of an individual General Partner and the stockholders, directors, officers, employees and successors of a corporate General Partner) from and against all such losses or damages; the Limited Partners shall not have any personal liability to the General Partner or to the Partnership on account of such losses or damages, except to the extent of their respective capital and undistributed net income accounts.

The Partnership shall procure and maintain such insurance as is available and as the General Partner in its best judgment deems to be warranted by the activities and investments of the Partnership. The premiums for such insurance shall be expenses of the Partnership, except where provided for in the Salvage Contract, shall cover and protect both the Partnership and all Partners, and shall include, but not be limited to, public liability and automotive liability, each covering bodily injury, death and property damage, and workers' compensation and employer's liability insurance.

8. NONTRANSFERABILITY OF PARTNERS' INTERESTS. No Partner, General or Limited, may assign any financial interest in the Partnership, nor may any assignee or other person be admitted to the Partnership as a substituted Limited Partner or General Partner without the prior written approval of all other Partners.

9. WITHDRAWAL OR DEATH OF GENERAL PARTNER.

A. No Voluntary Withdrawal. The original General Partner shall not withdraw voluntarily as a General Partner and shall not sell, assign or encumber its interest prior to Final Distribution of the Partnership assets without the consent of all Limited Partners.

B. Involuntary Withdrawal. The General Partner shall be deemed to have withdrawn involuntarily from the Partnership upon the occurrence of any of the following events:

(i) If the General Partner is a natural person, his death or the determination of his incapacity by the written statement of a disinterested, qualified physician or a final Court adjudication;

(ii) If the General Partner is not a natural person, its involuntary dissolution or liquidation;

(iii) The institution by or against such General Partner of any proceedings under the Bankruptcy Act or any other law for the relief of debtors or for the appointment of a receiver (or the like) for such General Partner's assets if the same are not stayed within 60 days;

(iv) The execution by such General Partner of an assignment for the benefit of creditors; or

(v) The removal of the General Partner by the unanimous written action of the Limited Partners, which removes the General Partner and appoints a substitute General Partner.

Upon the withdrawal of a General Partner, the remaining General Partner(s), if any, or if none, the former General Partner, or his legal representatives, shall immediately send notice of such withdrawal to all Partners and thereafter a new General Partner shall be selected in accordance with the provisions of Section 9C hereof. Upon selection of a new General Partner, the business and affairs of the Partnership shall be continued and the Partnership shall not be terminated.

C. Successor General Partner. In the event of a withdrawal by a General Partner, the Limited Partners shall select by unanimous written consent a successor General Partner, who shall assume all the duties of the former General Partner. Any successor General Partner shall join the Partnership as a General Partner and shall execute an appropriately amended copy of this Agreement and Certificate. The interest in the Partnership of the successor General Partner shall be determined at the time of admission by agreement between such successor General Partner and at least 67% in interest of the Limited Partners, provided that such percentage in interest of Limited Partners shall be at least equal to the minimum interest required, in the opinion of the Partnership's tax counsel, for the Partnership to continue to be taxed as a partnership for federal income tax purposes.



D. Termination Payments. After any involuntary withdrawal of a General Partner, he or his legal representatives shall be entitled to a termination payment equal to the amount which would have been distributed to him under Section 10D if the Partnership had terminated as of the date of such withdrawal. Termination payments hereunder shall be made within 90 days after the termination of the Partnership, in cash or in property valued at its fair market value at the time of computation of the termination payment.

10. TERMINATION OF THE PARTNERSHIP.

A. Dissolution. The Partnership shall be terminated and dissolved on the earliest to occur of the following:

(i) a date designated by the unanimous written consent of all Partners;

(ii) except as provided in (iii) below, the occurrence of an event specified under the laws of Montana as one effecting dissolution;

(iii) the withdrawal of the General Partner, as provided in Section 9A or B; provided, however, that upon the occurrence of such a withdrawal, the Limited Partners upon the appointment of a successor General Partner, may elect to continue the Partnership and the Partnership's business pursuant to Section 9C;

(iv) the sale of substantially all of the Partnership's property; or

(v) 12:00 midnight on December 31, 1987.

B. Winding Up of the Partnership. Upon any termination of the Partnership, it shall immediately commence winding up its affairs. The Partners shall continue to share net income or losses during the period of winding up, until liquidation, in the same proportions as before termination. The General Partner (or if there is no General Partner, any liquidating agent designated by a majority in interest of the Limited Partners) shall liquidate the Partnership's assets and shall use its best efforts to do so expeditiously and advantageously. A reasonable time shall be allowed for the orderly liquidation of the assets of the Partnership and the discharge of its liabilities to creditors so as to minimize losses attendant to a liquidation. The proceeds from liquidation of the Partnership's assets, after payment of the expenses of liquidation, shall be applied and distributed as set forth in paragraph D.

C. Accounting upon Termination. In connection with the termination of the Partnership, the Partnership shall furnish to each Partner a statement setting forth its assets and liabilities valued as of the date of complete liquidation at their fair market value. After distribution of all the assets of the Partnership, the Limited Partners

shall cease to be such, and the General Partner shall cause to be executed, acknowledged and filed all documents necessary to cancel the Certificate and terminate the Partnership.

D. Distributions on Termination. After payment of all Partnership liabilities to creditors, the General Partner shall set up such reserves as he deems reasonably necessary for any contingent or unforeseen liabilities or obligations of the Partnership. Such reserves may be paid over to a bank, or to the Partnership's counsel or accountants, or any other qualified agent, to be held in escrow for the purpose of paying any such contingent or unforeseen liabilities or obligations and, at the expiration of such period as the General Partner or liquidator may deem advisable, such reserves shall be distributed to the Partners or their assigns as follows:

(i) first, if and to the extent that there are any sums which have been advanced by any Partners to the Partnership other than as capital contributions, the principal amount thereof and the accrued interest thereon, if any, shall be repaid pro rata until such amounts are paid in full; and

(ii) then among the Partners, in accordance with their respective interests in the distributions of the Partnership; provided, that in no event shall the General Partner receive less than 1% of the aggregate amount so distributed.

After paying such liabilities and providing for such reserves, the General Partner or liquidator shall cause the remaining net assets of the Partnership to be distributed to and among the Partners in the manner set forth above (the "Final Distribution").

11. POWER OF ATTORNEY. Each Partner hereby irrevocably appoints the General Partner, and any successor General Partners, his attorney-in-fact to execute, acknowledge and swear to all instruments and file all documents requisite to carrying out the intention and purpose of this Agreement, including without limitation the filing of the Certificate and any business certificates, and amendments thereto, from time to time as required by applicable law. This appointment is a power coupled with an interest, in recognition of the fact that each Partner under this Agreement is relying upon the power of the General Partner to act as contemplated by this Agreement in such filings and other action by them on behalf of the Partnership. The foregoing power of attorney shall survive the assignment by any Limited Partner of the whole or any part of his interest hereunder.



12. REPRESENTATIONS, WARRANTIES AND COVENANTS. The Partnership and the General Partner, jointly and severally, represent and warrant to each Limited Partner as follows:

A. Upon the filing of its Certificate, the Partnership will be duly organized as a limited partnership under the Statute and will continue as such until termination of the Partnership in accordance with this Agreement or otherwise in accordance with law.

B. The Partnership, when organized, will have full power and lawful authority to carry on its business as presently proposed to be conducted and to own and operate the assets, property and business that it presently proposes to acquire and operate.

C. Each Limited Partner will become a Limited Partner of the Partnership, with all rights and benefits accorded to a Limited Partner of a limited partnership organized under the Statute and the exercise of any rights granted to a Limited Partner by the terms of this Agreement will not cause any Limited Partner to become liable for the obligations of the Partnership as a General Partner thereof.

D. The General Partner will have on the date of admission of Limited Partners into the Partnership a net worth, determined in accordance with generally accepted accounting principles, sufficient to satisfy the requirements of Section 7701(a)(2) of the Code and Section 301.7701-2(a) of the Regulations thereunder. The General Partner will use its best efforts in the future to maintain a net worth sufficient to satisfy such requirements.

E. There are no claims, disputes or proceedings of any kind, pending or threatened, involving the Partnership.

Each Partner hereby covenants and agrees with the Partnership and all the other Partners that this Agreement (including its Exhibits and the aforesaid Salvage Contract and Sales Agent Agreement) sets forth the entire understandings of the parties with respect to the subject matter and transactions contemplated hereby. Any and all previous agreements, understandings and negotiations between or among the parties and their principals and representatives, whether written or oral, are superseded by this Agreement.

13. NON-DISTRIBUTION AGREEMENT. Each Limited Partner hereby represents and warrants to, and agrees with, each other Partner: that his interest as a Limited Partner has been purchased with his own funds for his own account for investment and not with a view to the distribution thereof, by public sale or other disposition; that he does not intend

to subdivide his purchase with anyone; that such interest shall not be pledged, sold or transferred by him, unless, prior to any proposed pledge, sale or transfer, (a) a Registration Statement on Form S-1 (or any form replacing such form) under the Securities Act of 1933 (the "Act") with respect to the interest proposed to be pledged, sold or transferred shall then be effective, or (b) the Partnership shall have received an opinion of counsel in form and substance satisfactory to it that such registration is not required because such transaction complies with Rules or Regulations of the Securities and Exchange Commission under the Act or otherwise does not require registration under the Act; that any certificate of ownership representing his interest will bear a legend, in form satisfactory to counsel for the Partnership, confirming the existence of the provisions of this Section 13; that a stop order prohibiting transfer of his interest may be filed by the Partnership with its transfer agent, if any; that he understands that interests in the Partnership are "restricted securities" as that term is defined in Rule 144 under the Act and, accordingly, that the interests must be held indefinitely unless they are subsequently registered under the Act or unless an exemption from such registration is available and that the Partnership and the General Partner are under no obligation to register the interests or to comply with any such exemption; that he is aware that, pursuant to the provisions of Rule 144, the interests must be held for at least two years from the date of purchase and, even after such period, sales of the interests may be made only in limited amounts in accordance with the terms and conditions of Rule 144, if applicable, and that, in the case of unregistered sales to which these Rules are not applicable, registration under the Act or compliance with some exemption under the Act will be required; and, that the availability of Rule 144 is conditioned upon the satisfaction of a number of requirements, including registration and timely filing under the Securities Exchange Act of 1934, or adequate current public information with respect to the Partnership being available, and the existence of an active public market permitting sales in "brokers transactions" as defined in Rule 144.

Each Limited Partner also acknowledges receipt of full information regarding the Partnership's business and having had the opportunity to ask questions of and receive answers from the General Partner, and persons acting on its behalf, concerning the terms and conditions of the organization of the Partnership, and having had access to and obtained such additional financial, operating and other information about the Partnership, its proposed business and its proposed



operations as he considered necessary to verify the accuracy of the information provided to him, and to permit him to be able to properly evaluate the merits and risks of his investment. Each Limited Partner represents and warrants that his net worth and annual income have been accurately disclosed to the General Partner and that he can afford the economic risk of the investment in the Partnership by holding his interest for an indefinite period or, if such should be the case, by taking a complete loss. Each Limited Partner confirms that he understands that, if an exemption under the Act of the sale of the interests is not available, such sale would have to be registered pursuant to the requirements of the Act, and that his investment and non-distribution representations herein are being relied upon by the Partnership and the other Partners as part of the basis for claiming that his interest has been sold to him pursuant to exemptions from the registration provisions of the Act.

14. NOTICES. All notices and other communications required or contemplated hereunder shall be prepared in writing and shall be deemed to have been duly given when actually delivered or when mailed, by United States mail, postage prepaid, addressed to the recipient at his address as shown at that time on the Certificate, as amended from time to time, on file in the office of the Secretary of State of the State of Idaho. Any Partner may change the address to which such notices and communications to him are to be addressed by written notice to all other Partners given in such manner. In order to facilitate the giving of notices, the General Partner shall maintain at the principal office of the Partnership a current list of the addresses of the Partners as shown on the Certificate, modified by any notices of changes of address delivered to the General Partner pursuant to this Section 14. A notice shall be deemed properly addressed if sent to a Partner's address as set forth on the list so maintained.

15. LIMITED PARTNERSHIP CERTIFICATE. The Partners shall upon making their respective capital contributions or upon the request of the General Partner execute and acknowledge a Certificate as required by the Statute. The General Partner shall cause the Certificate to be filed in the office of the Secretary of State of the State of Idaho and any other offices where such a filing is required by law. The Partners shall perform any appropriate further acts and shall execute and acknowledge, and the General Partner shall cause to be filed and recorded, any and all other certificates and documents required by law in connection with the formation, operation, termination and dissolution of the Partnership, including without limitation any amendment to or cancellation of the Certificate.

16. RESIDENT OFFICE AND AGENT. The registered office and place of business of the initial registered office of the corporation shall be 412 River Street, Wallace, Idaho 83873, and the name of its initial registered agent at such office is Justin L. Rice.

17. MISCELLANEOUS. This Agreement and Certificate shall be construed and enforced in accordance with the laws of Idaho and may be executed in one or more counterparts, and with one or more signature pages for Limited Partners in the form attached hereto, each counterpart being deemed an original, but all of which together shall constitute one and the same Agreement and Certificate.

This Agreement may be amended by a written instrument executed by the General Partner and consented to by all Limited Partners. This Agreement and Certificate embodies the complete understanding of the parties hereto with respect to the subject matter hereof and, except as otherwise specified herein, shall be binding upon and shall inure to the benefit of their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the Partners have duly executed this Limited Partnership Agreement and Certificate of Limited Partnership under seal on or as of the date first above written.

GENERAL PARTNER

Royal Apex Corporation

CAPITAL CONTRIBUTION

By Justin L. Rice  
Justin L. Rice, President

\$ 10.00

STATE OF IDAHO )  
 ) ss.  
COUNTY OF SHOSHONE )

January 4th, 1983

Then personally appeared Justin L. Rice, to me known and known to me to be the President of Royal Apex Corporation, a Montana Corporation, and acknowledged the foregoing Limited Partnership Agreement and Certificate of Limited Partnership to be true and the free act and deed of said corporation, duly authorized by its Board of Directors, before me.

Nancy C. Scherger  
Notary Public

My commission expires: 10-22-86





LIMITED PARTNERS

CAPITAL CONTRIBUTION

Royal Apex Corporation

By Justin L. Rice  
Justin L. Rice, President  
and Registered Agent

\$ 590.00

STATE OF IDAHO )  
 ) ss.  
COUNTY OF SHOSHONE )

January 4th, 1983

Then personally appeared Justin L. Rice, to me known and known to me to be the President of Royal Apex Corporation, a Montana corporation, and acknowledged the foregoing Limited Partnership Agreement and Certificate of Limited Partnership to be true and the free act and deed of said corporation, duly authorized by its Board of Directors, before me.



Mary Eidenberger  
Notary Public

My commission expires: 10-22-86

UNIVERSAL WOOD & METAL, INC.

By J. C. Marshall  
J. C. Marshall, President

\$ 300.00

STATE OF IDAHO )  
 ) ss.  
COUNTY OF SHOSHONE )

January 4th, 1983

Then personally appeared to me J. C. Marshall, to me known and known to me to be the President of Universal Wood & Metal, Inc., an Idaho corporation, and acknowledged the foregoing Limited Partnership Agreement and Certificate of Limited Partnership to be true and the free act and deed of said corporation, duly authorized by its Board of Directors, before me.



Mary Eidenberger  
Notary Public

My commission expires: 10-22-86

PRICHARD RESOURCES COMPANY

By Wilfred E. Gardner, Jr.  
Wilfred E. Gardner, Jr.,  
President

\$ 100.00

STATE OF IDAHO )  
 )  
COUNTY OF SHOSHONE ) ss.

January 4th, 1983

Then personally appeared to me Wilfred E. Gardner, Jr., to me known and known to me to be the President of Prichard Resources Company, an Idaho corporation, and acknowledged the foregoing Limited Partnership Agreement and Certificate of Limited Partnership to be true and the free act and deed of said corporation, duly authorized by its Board of Directors, before me.



Mary Eidenberger  
Notary Public

My commission expires: 10-22-86

EXHIBIT A

UNIVERSAL-ROYAL APEX LIMITED PARTNERSHIP

<u>GENERAL PARTNER</u>	<u>Capital Contribution</u>	<u>Percentage Interest</u>
Royal Apex Corporation C/O Keller, Reynolds, Drake, Sternhagen & Johnson South Annex Power Bldg. Helena, Montana 59601	\$ 10.00	1.0%
<u>LIMITED PARTNERS</u>		
Royal Apex Corporation C/O Keller, Reynolds, Drake, Sternhagen & Johnson South Annex Power Bldg. Helena, Montana 59601	590.00	59.0%
Prichard Resources Company 307 Cedar Street Wallace, Idaho 83873	100.00	10.0%
Universal Wood & Metal, Inc. 1000 West Silver Road Post Office Box 99 Smelterville, Idaho 83868	<u>300.00</u>	30.0%
TOTALS	\$ <u>1,000.00</u>	<u>100.0%</u>



EXHIBIT B

ADVANCES ON BEHALF OF THE PARTNERSHIP

<u>Date</u>	<u>Description</u>	<u>Amount</u>
on or before 10/26/82	Universal-deposit on Contract	\$ 25,000.00
11/11/82	Universal-deposit on Contract (borrowed from Heller)	100,000.00
12-6-82	Universal-further deposit on Contract, extension (repayment to Coeur d'Alene Mines Corporation)	100,000.00

No. L00280

Certificate of Limited Partnership

UNIVERSAL-ROYAL APEX LIMITED PARTNERSHIP

STATE OF IDAHO  
Department of State  
Boise, Idaho

Approved, filed and admitted to the  
corporation records of the State  
of Idaho

Date January 27, 1983

Time 8:49 a.m.

FEES PAID

Filing \$ 60.00

Tax \$

Pete T. Cenarrusa

SECRETARY OF STATE

By: Marilyn Johnson

Invoice # 27087

cert # 69175

Filed by: Royal Apex Silver, Inc.  
Box 886  
Wallace, Idaho 83873

TITLE 53, CHAPTER 2, IDAHO CODE

IDAHO LIMITED PARTNERSHIP ACT

53-201. DEFINITIONS. As used in this chapter, unless the context otherwise requires:

(1) "Certificate of limited partnership" means the certificate referred to in section 53-208, Idaho Code, and the certificate as amended.

(2) "Contribution" means any cash, other property, tangible or intangible, or labor or services actually performed, which a partner contributes to a limited partnership in his capacity as a partner.

(3) "Event of withdrawal of a general partner" means an event that causes a person to cease to be a general partner as provided in section 53-223, Idaho Code.

(4) "Foreign limited partnership" means a partnership formed under the laws of any state other than this state and having as partners one or more general partners and one or more limited partners.

(5) "General partner" means a person who has been admitted to a limited partnership as a general partner in accordance with the partnership agreement and named in the certificate of limited partnership as a general partner.

(6) "Limited partner" means a person who has been admitted to a limited partnership as a limited partner in accordance with the partnership agreement and named in the certificate of limited partnership as a limited partner.

(7) "Limited partnership" and "domestic limited partnership" mean a partnership formed by two (2) or more persons under the laws of this state and having one or more general partners and one or more limited partners.

(8) "Partner" means a limited or general partner.

(9) "Partnership agreement" means any valid agreement, written or oral, of the partners as to the affairs of a limited partnership and the conduct of its business.

(10) "Partnership interest" means a partner's share of the profits and losses of a limited partnership and the right to receive distributions of partnership assets.

(11) "Person" means a natural person, partnership, limited partnership (domestic or foreign), trust, estate, association, or corporation.

(12) "State" means a state, territory, or possession of the United States, the District of Columbia, or the Commonwealth of Puerto Rico.



53-202. NAME. The name of each limited partnership as set forth in its certificate of limited partnership:

- (1) Shall contain without abbreviation the words "limited partnership";
- (2) May not contain the name of a limited partner unless (i) it is also the name of a general partner or the corporate name of a corporate general partner, or (ii) the business of the limited partnership had been carried on under that name before the admission of that limited partner;
- (3) May not contain any word or phrase indicating or implying that it is organized other than for a purpose stated in its certificate of limited partnership;
- (4) May not be the same as, or deceptively similar to, the name of any corporation or limited partnership organized under the laws of this state or licensed or registered as a foreign corporation or limited partnership in this state; and
- (5) May not contain the following words or abbreviations: "corporation", "incorporated", "corp.", and "inc."

53-203. RESERVATION OF NAME. (a) The exclusive right to the use of a name may be reserved by:

- (1) Any person intending to organize a limited partnership under this chapter and to adopt that name;
- (2) Any domestic limited partnership or any foreign limited partnership registered in this state which, in either case, intends to adopt that name;
- (3) Any foreign limited partnership intending to register in this state and adopt that name; and
- (4) Any person intending to organize a foreign limited partnership and intending to have it register in this state and adopt that name.

(b) The reservation shall be made by filing with the secretary of state an application, executed by the applicant, to reserve a specified name. If the secretary of state finds that the name is available for use by a domestic or foreign limited partnership, he shall reserve the name for the exclusive use of the applicant for a period of four (4) months. A name reservation may be renewed at or after the expiration of any four (4) month reservation period by filing a new name reservation in writing, along with the required fee; provided, that at the end of any such reservation period there is not on file in the office of the secretary of state a competing name reservation which is to take effect at the expiration of the existing reservation. Competing reservations will have priority in order of receipt. The right to the exclusive use of a reserved name may be transferred to any other person by filing in the office of the secretary of state a notice of the transfer, executed by the applicant for whom the name was reserved and specifying the name and address of the transferee.

53-204. REGISTERED AGENT. Each limited partnership shall continuously maintain in this state a registered agent for service of process on the limited partnership, which agent must be an individual resident of this state, a domestic corporation, or a foreign corporation authorized to do business in this state.

53-205. RECORDS TO BE KEPT. Each limited partnership shall keep the following: (1) a current list of the full name and last known business address of each partner set forth in alphabetical order, (2) a copy of the certificate of limited partnership and all certificates of amendment thereto, together with executed copies of any powers of attorney pursuant to which any certificate has been executed, (3) copies of the limited partnership's federal, state and local income tax returns and reports, if any, for the three (3) most recent years, and (4) copies of any then effective written partnership agreements and of any financial statements of the limited partnership for the three (3) most recent years. Those records are subject to inspection and copying at the reasonable request, and at the expense, of any partner during ordinary business hours.

53-206. NATURE OF BUSINESS. A limited partnership may transact any business that a partnership without limited partners may transact.

53-207. BUSINESS TRANSACTIONS OF PARTNER WITHIN PARTNERSHIP. Except as provided in the partnership agreement, a partner may lend money to and transact other business with the limited partnership and, subject to other applicable law, has the same rights and obligations with respect thereto as a person who is not a partner.

53-208. CERTIFICATE OF LIMITED PARTNERSHIP. (a) In order to form a limited partnership two (2) or more persons must execute a certificate of limited partnership. The certificate shall be filed in the office of the secretary of state and set forth:

- (1) The name of the limited partnership;
- (2) The general character of its business;
- (3) The name and address of the registered agent for service of process required to be maintained by section 53-204, Idaho Code;
- (4) The name and the business address of each partner (specifying separately the general partners and limited partners);
- (5) The amount of cash and a description and statement of the agreed value of the other property or labor or services contributed by each partner;
- (6) The times at which or events on the happening of which any additional contributions agreed to be made by each partner are to be made;
- (7) Any power of a limited partner to grant the right to become a limited partner to an assignee of any part of his partnership

interest, and the terms and conditions of the power;

(8) If agreed upon, the time at which or the events on the happening of which a partner may terminate his membership in the limited partnership and the amount of, or the method of determining, the distribution to which he may be entitled respecting his partnership interest, and the terms and conditions of the termination and distribution;

(9) Any right of a partner to receive distributions of property, including cash from the limited partnership;

(10) Any right of a partner to receive, or of a general partner to make, distributions to a partner which include a return of all or any part of the partner's contribution;

(11) Any time at which or events upon the happening of which the limited partnership is to be dissolved and its affairs wound up;

(12) Any right of the remaining general partners to continue the business on the happening of an event of withdrawal of a general partner; and

(13) Any other matters the partners determine to include therein.

(b) A limited partnership is formed at the time of the filing of the certificate of limited partnership in the office of the secretary of state or any later time specified in the certificate of limited partnership if, in either case, there has been substantial compliance with the requirements of this section.

53-209. AMENDMENT TO CERTIFICATE. (a) A certificate of limited partnership is amended by filing a certificate of amendment thereto in the office of the secretary of state. The certificate shall set forth:

- (1) The name of the limited partnership;
- (2) The date of filing the certificate; and
- (3) The amendment to the certificate.

(b) Within thirty (30) days after the happening of any of the following events, an amendment to a certificate of limited partnership reflecting the occurrence of the event or events shall be filed:

- (1) A change in the amount or character of the contribution of any partner, or in any partner's obligation to make a contribution; provided, however, that a change consisting exclusively of a gift of a limited partnership interest between existing limited partners shall be excluded from the requirement to file an amendment to the certificate of limited partnership;
- (2) The admission of a new partner;
- (3) The withdrawal of a partner;
- (4) The continuation of the business under section 53-244, Idaho Code, after an event of withdrawal of a general partner; or
- (5) A change of the name or address of the registered agent.

(c) A general partner who becomes aware that any material statement in a certificate of limited partnership was false when



made or that any arrangements or other facts described have changed, making the certificate inaccurate in any material respect, shall promptly amend the certificate, but an amendment to show a change of address of a limited partner need be filed only once every twelve (12) months.

(d) A certificate of limited partnership may be amended at any time for any other proper purpose the general partners determine.

53-210. CANCELLATION OF CERTIFICATE. A certificate of limited partnership shall be cancelled upon the dissolution and the commencement of winding up of the partnership or at any other time there are no limited partners. A certificate of cancellation shall be filed in the office of the secretary of state and set forth:

- (1) The name of the limited partnership;
- (2) The date of filing of its certificate of limited partnership;
- (3) The reason for filing the certificate of cancellation;
- (4) The effective date (which shall be a date certain) of cancellation if it is not to be effective upon the filing of the certificate; and
- (5) Any other information the general partners filing the certificate determine.

53-211. EXECUTION OF CERTIFICATES. (a) Each certificate required by sections 53-208 through 53-216, Idaho Code, to be filed in the office of the secretary of state shall be executed in the following manner:

- (1) An original certificate of limited partnership must be signed by all partners named therein;
  - (2) A certificate of amendment must be signed by at least one (1) general partner and by each other partner designated in the certificate as a new partner or whose contribution is described as having been increased; and
  - (3) A certificate of cancellation must be signed by all general partners;
- (b) Any person may sign a certificate by an attorney-in-fact, but a power of attorney to sign a certificate relating to the admission, or increased contribution, of a partner must specifically describe the admission or increase.

53-212. AMENDMENT OR CANCELLATION BY JUDICIAL ACT. If a person required by the provisions of section 53-211, Idaho Code, to execute a certificate of amendment or cancellation fails or refuses to do so, any other partner, and any assignee of a partnership interest, who is adversely affected by the failure or refusal, may petition the district court to direct the amendment or cancellation. If the court finds that the amendment or cancellation is proper and that any person so designated has failed or refused to execute the certificate, the court may order that the certificate shall be filed by the secretary of state without such person's signature.

53-213. FILING IN OFFICE OF SECRETARY OF STATE. (a) Two (2) signed copies of the certificate of limited partnership and of any certificates of amendment or cancellation (or of any judicial decree of amendment or cancellation) shall be delivered to the secretary of state. A person who executes a certificate as an agent or fiduciary need not exhibit evidence of his authority as a prerequisite to filing. Unless the secretary of state finds that any certificate does not conform to law, upon receipt of all filing fees required by law he shall:

- (1) Endorse on each duplicate original the word "Filed" and the day, month and year of the filing thereof;
- (2) File one (1) duplicate original in his office; and
- (3) Return the other duplicate original to the person who filed it or his representative.

(b) Upon the filing of a certificate of amendment (or judicial decree of amendment) in the office of the secretary of state, the certificate of limited partnership shall be amended as set forth therein, and upon the effective date of a certificate of cancellation (or a judicial decree thereof), the certificate of limited partnership is cancelled.

53-214. LIABILITY FOR FALSE STATEMENT IN CERTIFICATE. If any certificate of limited partnership or certificate of amendment or cancellation contains a false statement, one who suffers loss by reliance on the statement may recover damages for the loss from:

(1) Any person who executes the certificate, or causes another to execute it on his behalf, and knew, and any general partner who knew or should have known, the statement to be false at the time the certificate was executed; and

(2) Any general partner who thereafter knows or should have known that any arrangement or other fact described in the certificate has changed, making the statement inaccurate in any material respect within a sufficient time before the statement was relied upon reasonably to have enabled that general partner to cancel or amend the certificate, or to file a petition for its cancellation or amendment under section 53-212, Idaho Code.

53-215. NOTICE. The fact that a certificate of limited partnership is on file in the office of the secretary of state is notice that the partnership is a limited partnership and the persons designated therein as limited partners are limited partners, but it is not notice of any other fact.

53-216. DELIVERY OF CERTIFICATES TO LIMITED PARTNERS. Upon the return by the secretary of state pursuant to section 53-213, Idaho Code, of a certificate marked "Filed", the general partners shall promptly deliver or mail a copy of the certificate to each limited partner unless the partnership agreement provides otherwise.

53-217. ADMISSION OF ADDITIONAL LIMITED PARTNERS. (a) After the filing of a limited partnership's original certificate of limited partnership, a person may be admitted as an additional limited partner:

(1) In the case of a person acquiring a partnership interest directly from the limited partnership, upon the compliance with the partnership agreement or, if the partnership agreement does not so provide, upon the written consent of all partners; and

(2) In the case of an assignee of a partnership interest of a partner who has the power, as provided in section 53-242, Idaho Code, to grant the assignee the right to become a limited partner, upon the exercise of that power and compliance with any conditions limiting the grant or exercise of the power.

(b) In each case under subsection (a) hereof, the person acquiring the partnership interest becomes a limited partner only upon amendment of the certificate of limited partnership reflecting the fact.

53-218. VOTING. Subject to section 53-219, Idaho Code, the partnership agreement may grant to all or a specified group of the limited partners the right to vote (on a per capita or other basis) upon any matter.

53-219. LIABILITY TO THIRD PARTIES. (a) Except as provided in subsection (d) of this section, a limited partner is not liable for the obligations of a limited partnership unless he is also a general partner or, in addition to the exercise of his rights and powers as a limited partner, he takes part in the control of the business. However, if the limited partner's participation in the control of the business is not substantially the same as the exercise of the powers of a general partner, he is liable only to persons who transact business with the limited partnership with actual knowledge of his participation in control.

(b) A limited partner does not participate in the control of the business within the meaning of subsection (a) hereof solely by doing one or more of the following:

(1) Being a contractor for or an agent or employee of the limited partnership or of a general partner;

(2) Consulting with and advising a general partner with respect to the business of the limited partnership;

(3) Acting as surety for the limited partnership;

(4) Approving or disapproving an amendment to the partnership agreement; or

(5) Voting on one or more of the following matters:

i) the dissolution and winding up of the limited partnership;

(ii) the sale, exchange, lease, mortgage, pledge, or other transfer of all or substantially all of the assets of the limited partnership other than in the ordinary course of its business;



(iii) the incurrence of indebtedness by the limited partnership other than in the ordinary course of its business;

(iv) a change in the nature of the business; or

(v) the removal of a general partner.

(c) The enumeration in subsection (b) hereof does not mean that the possession or exercise of any other powers by a limited partner constitutes participation by him in the business of the limited partnership.

(d) A limited partner who knowingly permits his name to be used in the name of the limited partnership, except under circumstances permitted by section 53-202(2)(i), Idaho Code, is liable to creditors who extend credit to the limited partnership without actual knowledge that the limited partner is not a general partner.

53-220. PERSON ERRONEOUSLY BELIEVING HIMSELF LIMITED PARTNER.

(a) Except as provided in subsection (b) of this section, a person who makes a contribution to a business enterprise and erroneously, but in good faith, believes that he has become a limited partner in the enterprise is not a general partner in the enterprise and is not bound by its obligations by reason of making the contribution, receiving distributions from the enterprise, or exercising any rights of a limited partner, if, on ascertaining the mistake, he:

(1) Causes an appropriate certificate of limited partnership or certificate of amendment to be executed and filed; or

(2) Withdraws from future equity participation in the enterprise.

(b) A person who makes a contribution of the kind described in subsection (a) hereof is liable as a general partner to any third party who transacts business with the enterprise (i) before the person withdraws and, if the enterprise is a limited partnership, an appropriate certificate is filed to show withdrawal, or (ii) before an appropriate certificate is filed to show his status as a limited partner and, in the case of an amendment, after expiration of the thirty (30) day period for filing an amendment relating to the person as a limited partner under section 53-209, Idaho Code, but in either case only if the third party actually believed in good faith that the person was a general partner at the time of the transaction.

53-221. INFORMATION. Each limited partner, either in person or by an attorney in fact, has the right to:

(1) Inspect and copy any of the partnership records required to be maintained by section 53-205, Idaho Code; and

(2) Obtain from the general partners from time to time upon reasonable demand (i) true and full information regarding the state of the business and financial condition of the limited partnership, (ii) promptly after becoming available, a copy of the limited partnership's federal, state and local income tax returns for each year, and (iii) other information regarding the affairs of the limited partnership as is just and reasonable.

53-222. ADMISSION OF ADDITIONAL GENERAL PARTNERS. After the filing of a limited partnership's original certificate of limited partnership, additional general partners may be admitted only with the specific written consent of each partner.

53-223. EVENTS OF WITHDRAWAL OF GENERAL PARTNER. Except as approved by the specific written consent of all partners at the time, a person ceases to be a general partner of a limited partnership upon the happening of any of the following events:

- (1) The general partner withdraws from the limited partnership as provided in section 53-232, Idaho Code;
- (2) The general partner ceases to be a member of the limited partnership as provided in section 53-240, Idaho Code;
- (3) The general partner is removed as a general partner in accordance with the partnership agreement;
- (4) Unless otherwise provided in the certificate of limited partnership, the general partner (i) makes an assignment for the benefit of creditors; (ii) files a voluntary petition in bankruptcy; (iii) is adjudicated a bankrupt or insolvent; (iv) files a petition or answer seeking for himself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law, or regulation; (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of this nature; or (vi) seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of the general partner or of all or any substantial part of his properties;
- (5) Unless otherwise provided in the certificate of limited partnership, one hundred twenty (120) days after the commencement of any proceeding against the general partner seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, the proceeding has not been dismissed, or if within ninety (90) days after the appointment without his consent or acquiescence of a trustee, receiver, or liquidator of the general partner or of all or any substantial part of his properties, the appointment is not vacated or stayed or within ninety (90) days after the expiration of any such stay, the appointment is not vacated;
- (6) In the case of a general partner who is a natural person:
  - (i) his death; or
  - (ii) the entry by a court of competent jurisdiction adjudicating him incompetent to manage his person or estate;
- (7) In the case of a general partner who is acting as a general partner by virtue of being a trustee of a trust, the termination of the trust (but not merely the substitution of a new trustee);
- (8) In the case of a general partner that is a separate partnership, the dissolution and commencement of winding up of the separate partnership;

- (9) In the case of a general partner that is a corporation, the filing of a certificate of dissolution, or its equivalent, for the corporation or the revocation of its charter; or
- (10) In the case of an estate, the distribution by the fiduciary of the estate's entire interest in the partnership.

53-224. GENERAL POWERS AND LIABILITIES. Except as provided in this chapter or in the partnership agreement, a general partner of a limited partnership has the rights and powers and is subject to the restrictions and liabilities of a partner in a partnership without limited partners.

53-225. CONTRIBUTIONS BY GENERAL PARTNER. A general partner of a limited partnership may make contributions to the partnership and share in the profits and losses of, and distributions from, the limited partnership as a general partner. A general partner also may make contributions to and share in profits, losses, and distributions as a limited partner. A person who is both a general partner and a limited partner has the rights and powers, and is subject to the restrictions and liabilities, of a general partner and, except as provided in the partnership agreement, also has the powers, and is subject to the restrictions, of a limited partner to the extent of his participation in the partnership as a limited partner.

53-226. VOTING. The partnership agreement may grant to all or certain identified general partners the right to vote (on a per capita or any other basis), separately or with all or any class of the limited partners, on any matter.

53-227. FORM OF CONTRIBUTION. The contribution of a partner may be in cash, other tangible property, intangible property, or labor or services actually performed.

53-228. (RESERVED).

53-229. SHARING OF PROFITS AND LOSSES. The profits and losses of a limited partnership shall be allocated among the partners, and among classes of partners, in the manner provided in the partnership agreement. If the partnership agreement does not so provide, profits and losses shall be allocated on the basis of value (as stated in the certificate of limited partnership) of the contributions made by each partner to the extent they have been received by the partnership and have not been returned.

53-230. SHARING OF DISTRIBUTIONS. Distributions of cash or other assets of a limited partnership shall be allocated among the partners, and among classes of partners, in the manner provided in the partnership agreement. If the partnership agreement does not so provide, distributions shall be made on the basis of the value (as



stated in the certificate of limited partnership) of the contributions made by each partner to the extent they have been received by the partnership and have not been returned.

53-231. INTERIM DISTRIBUTIONS. Except as provided in sections 53-231 through 53-238, Idaho Code, a partner is entitled to receive distributions from a limited partnership before his withdrawal from the limited partnership and before the dissolution and winding up thereof:

- (1) To the extent and at the times or upon the happening of the events specified in the partnership agreement; and
- (2) If any distribution constitutes a return of any part of his contribution under section 53-238(b), Idaho Code, to the extent and at the times or upon the happening of the events specified in the certificate of limited partnership.

53-232. WITHDRAWAL OF GENERAL PARTNER. A general partner may withdraw from a limited partnership at any time by giving written notice to the other partners, but if the withdrawal violates the partnership agreement, the limited partnership may recover from the withdrawing general partner damages for breach of the partnership agreement and offset the damages against the amount otherwise distributable to him.

53-233. WITHDRAWAL OF LIMITED PARTNER. A limited partner may withdraw from a limited partnership at the time or upon the happening of events specified in the certificate of limited partnership and in accordance with the partnership agreement. If the certificate does not specify the time or the events upon the happening of which a limited partner may withdraw or a definite time for the dissolution and winding up of the limited partnership, a limited partner may withdraw upon not less than six (6) months' prior written notice to each general partner at his address on the books of the limited partnership at its office in this state.

53-234. DISTRIBUTION UPON WITHDRAWAL. Except as provided in sections 53-231 through 53-238, Idaho Code, upon withdrawal any withdrawing partner is entitled to receive any distribution to which he is entitled under the partnership agreement and, if not otherwise provided in the agreement, he is entitled to receive, within a reasonable time after withdrawal, the fair value of his interest in the limited partnership as of the date of withdrawal based upon his right to share in distributions from the limited partnership.

53-235. DISTRIBUTION IN KIND. Except as provided in the certificate of limited partnership, a partner, regardless of the nature of his contribution, has no right to demand and receive any distribution from a limited partnership in any form other than in cash. Except as provided in the partnership agreement, a partner

may not be compelled to accept a distribution of any asset in kind from a limited partnership to the extent that the percentage of the asset distributed to him exceeds a percentage of that asset which is equal to the percentage in which he shares in distributions from the limited partnership.

53-236. RIGHT TO DISTRIBUTION. At the time a partner becomes entitled to receive a distribution, he has the status of, and is entitled to all remedies available to, a creditor of the limited partnership with respect to the distribution.

53-237. LIMITATIONS ON DISTRIBUTION. A partner may not receive a distribution from a limited partnership to the extent that, after giving effect to the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests, exceed the fair value of the partnership assets.

53-238. LIABILITY UPON RETURN OF CONTRIBUTION. (a) If a partner has received the return of any part of his contribution without violation of the partnership agreement or this chapter, he is liable to the limited partnership for a period of one (1) year thereafter for the amount of the returned contribution, but only to the extent necessary to discharge the limited partnership's liabilities to creditors who extended credit to the limited partnership during the period the contribution was held by the partnership.

(b) If a partner has received the return of any part of his contribution in violation of the partnership agreement or this chapter, he is liable to the limited partnership for a period of six (6) years thereafter for the amount of the contribution wrongfully returned.

(c) A partner receives a return of his contribution to the extent that a distribution to him reduces his share of the fair value of the net assets of the limited partnership below the value (as set forth in the certificate of limited partnership) of his contribution which has not been distributed to him.

53-239. NATURE OF PARTNERSHIP INTEREST. A partnership interest is personal property.

53-240. ASSIGNMENT OF PARTNERSHIP INTEREST. Except as provided in the partnership agreement, a partnership interest is assignable in whole or in part. An assignment of a partnership interest does not dissolve a limited partnership or entitle the assignee to become or to exercise any rights of a partner. An assignment entitles the assignee to receive, to the extent assigned, only the distribution to which the assignor would be entitled. Except as provided in the partnership agreement, a partner ceases to be a partner upon assignment of all his partnership interest.

53-241. RIGHTS OF CREDITOR. On application to a court of competent jurisdiction by any judgment creditor of a partner, the court may charge the partnership interest of the partner with payment of the unsatisfied amount of the judgment with interest. To the extent so charged, the judgment creditor has only the rights of an assignee of the partnership interest. This chapter does not deprive any partner of the benefit of any exemption laws applicable to his partnership interest.

53-242. RIGHTS OF ASSIGNEE TO BECOME LIMITED PARTNER. (a) An assignee of a partnership interest, including an assignee of a general partner, may become a limited partner if and to the extent that (1) the assignor gives the assignee that right in accordance with authority described in the certificate of limited partnership, or (2) all other partners consent.

(b) An assignee who has become a limited partner has, to the extent assigned, the rights and powers, and is subject to the restrictions and liabilities, of a limited partner under the partnership agreement and this chapter. An assignee who becomes a limited partner also is liable for the obligations of his assignor to make and return contributions as provided in sections 55-231 through 55-238, Idaho Code. However, the assignee is not obligated for liabilities unknown to the assignee at the time he became a limited partner and which could not be ascertained from the certificate of limited partnership.

(c) If an assignee of a partnership interest becomes a limited partner, the assignor is not released from his liability to the limited partnership under sections 53-214 and 53-228, Idaho Code.

53-243. POWER OF ESTATE OF DECEASED OR INCOMPETENT PARTNER. If a partner who is an individual dies or a court of competent jurisdiction adjudges him to incompetent to manage his person or his property, the partner's personal representative, administrator, conservator, or other legal representative may exercise all the partner's rights for the purpose of settling his estate or administering his property, including any power the partner had to give an assignee the right to become a limited partner. If a partner is a corporation, trust, or other entity and is dissolved or terminated, the powers of that partner may be exercised by its legal representative or successor.

53-244. NONJUDICIAL DISSOLUTION. A limited partnership is dissolved and its affairs shall be wound up upon the happening of the first to occur of the following:

- (1) At the time or upon the happening of events specified in the certificate of limited partnership;
- (2) Written consent of all partners;
- (3) An event of withdrawal of a general partner unless at the time there is at least one (1) other general partner and the



certificate of limited partnership permits the business of the limited partnership to be carried on by the remaining general partner and that partner does so, but the limited partnership is not dissolved and is not required to be wound up by reason of any event of withdrawal, if, within ninety (90) days after the withdrawal, all partners agree in writing to continue the business of the limited partnership and to the appointment of one or more additional general partners if necessary or desired; or

(4) Entry of a decree of judicial dissolution under section 53-245, Idaho Code.

53-245. JUDICIAL DISSOLUTION. On application by or for a partner the district court may decree dissolution of a limited partnership whenever it is not reasonably practicable to carry on the business in conformity with the partnership agreement.

53-246. WINDING UP. Except as provided in the partnership agreement, the general partners who have not wrongfully dissolved a limited partnership or, if none, the limited partners, may wind up the limited partnership's affairs; but the district court may wind up the limited partnership's affairs upon application of any partner, his legal representative, or assignee.

53-247. DISTRIBUTION OF ASSETS. Upon the winding up of a limited partnership, the assets shall be distributed as follows:

- (1) To creditors other than partners;
- (2) To limited partners who are creditors, in satisfaction of liabilities of the limited partnership other than liabilities for distributions to partners under section 53-231 or 53-234, Idaho Code;
- (3) To general partners who are creditors, in satisfaction of liabilities of the limited partnership other than liabilities for distributions to partners under section 53-231 or 53-234, Idaho Code;
- (4) Except as provided in the partnership agreement, to partners and former partners in satisfaction of liabilities for distributions under section 53-231 or 53-234, Idaho Code;
- (5) Except as provided in the partnership agreement, to limited partners for the return of their contributions;
- (6) Except as provided in the partnership agreement, to general partners for the return of their contributions;
- (7) Except as provided in the partnership agreement, to limited partners respecting their partnership interests, in the proportions in which the limited partners share in distributions; and
- (8) Except as provided in the partnership agreement, to general partners respecting their partnership interests, in the proportions in which the general partners share in distributions.

53-248. LAW GOVERNING FOREIGN LIMITED PARTNERSHIPS. Subject to the constitution of this state, (i) the laws of the state under which a foreign limited partnership is organized govern its organization and internal affairs and the liability of its limited partners, and (ii) a foreign limited partnership may not be denied admission by reason of any difference between those laws and the laws of this state.

53-249. ADMISSION OF FOREIGN LIMITED PARTNERSHIPS. Before transacting business in this state, a foreign limited partnership shall make application to the secretary of state. In order to be admitted, a foreign limited partnership shall submit to the secretary of state, in duplicate, an application for registration as a foreign limited partnership, signed and verified by a general partner and setting forth:

- (1) The name of the foreign limited partnership and, if different, the name under which it proposes to be authorized to transact business in this state;
- (2) The state and date of its formation;
- (3) The general character of the business it proposes to transact in this state;
- (4) The name and address of any registered agent for service of process on the foreign limited partnership whom the foreign limited partnership elects to appoint; the agent must be an individual resident of this state, a domestic corporation, or a foreign corporation having a place of business in, and authorized to do business in, this state;
- (5) The address of the office required to be maintained in the state of its organization by the laws of that state or, if not so required, of the principal office of the foreign limited partnership; and
- (6) The name and address of each general partner and of each limited partner whose contribution is equal to or greater than five per cent (5%) of the total contribution of all partners.

The application will be accompanied by a certificate certifying to the lawful existence of the limited partnership, issued by the proper officer of the jurisdiction in which the certificate of limited partnership is filed or recorded.

53-250. ISSUANCE OF CERTIFICATE OF REGISTRATION -- FOREIGN LIMITED PARTNERSHIPS. (a) If the secretary of state finds that an application for registration conforms to law and all requisite fees have been paid, he shall:

- (1) Endorse on the application the word "Filed", and the month, day, and year of the filing thereof;
- (2) File in his office a duplicate original of the application; and
- (3) Issue a certificate of registration.

(b) The certificate of registration, together with a duplicate original of the application, shall be returned to the person who filed the application or his representative.

53-251. CHANGE OF REGISTERED AGENT OF FOREIGN LIMITED PARTNERSHIP OR ITS ADDRESS. A foreign limited partnership authorized to transact business in this state may change its registered agent or its address upon filing in the office of the secretary of state a statement setting forth:

- (a) The name of the limited partnership;
- (b) The name and address of its then registered agent;
- (c) If its registered agent be changed, the name of its successor registered agent;
- (d) If the registered agent's address is to be changed, the address to which it is to be changed.

Such statement shall be executed by the limited partnership by a general partner, and verified by him, and delivered to the secretary of state. If the secretary of state finds that such statement conforms to the provisions of this act, he shall file such statement in his office.

Any registered agent of a foreign limited partnership may resign as such agent upon filing a written notice thereof, executed in duplicate, with the secretary of state, who shall forthwith mail a copy thereof to the limited partnership at its principal office in the state or country under the laws of which it is organized. The appointment of such agent shall terminate upon the expiration of thirty (30) days after receipt of such notice by the secretary of state.

53-252. SERVICE OF PROCESS ON FOREIGN LIMITED PARTNERSHIPS. The registered agent so appointed by a foreign limited partnership authorized to transact business in this state shall be an agent of such limited partnership upon whom any process, notice or demand required or permitted by law to be served upon the limited partnership may be served.

Whenever a foreign limited partnership authorized to transact business in this state shall fail to appoint or maintain a registered agent in this state, or whenever any such registered agent cannot within reasonable diligence be found, or whenever the certificate of registration of a foreign limited partnership shall be cancelled or withdrawn, then any process, notice or demand required or permitted by law to be served upon the limited partnership may be served by mailing copies of the process, notice or demand by registered or certified mail to the limited partnership addressed to its principal office in its state of organization as shown on its application for registration or as shown on any application for withdrawal of a limited partnership that has withdrawn from Idaho.

Nothing herein contained shall limit or affect the right to serve any process, notice or demand required or permitted by law to



be served upon a foreign limited partnership in any other manner now or hereafter permitted by law.

53-253. NAMES FOR FOREIGN LIMITED PARTNERSHIPS. A foreign limited partnership may be admitted by the secretary of state under any name (whether or not it is the name under which it was organized in its state of organization) that includes without abbreviation the words "limited partnership" and that could be adopted by a domestic limited partnership.

53-254. CHANGES AND AMENDMENTS IN FOREIGN LIMITED PARTNERSHIPS. If any material statement in the application for registration of a foreign limited partnership was false when made or any arrangements or other facts described have changed, making the application inaccurate in any material respect, the foreign limited partnership shall promptly file in the office of the secretary of state a certificate, signed and verified by a general partner, correcting such statement.

53-255. WITHDRAWAL FROM STATE OF FOREIGN LIMITED PARTNERSHIPS. A foreign limited partnership may withdraw from this state by filing with the secretary of state an application for withdrawal signed and verified by a general partner. The application shall set forth:

- (a) The name of the limited partnership and the state or country under the laws of which it is organized;
- (b) That the limited partnership is not transacting business in this state;
- (c) That the limited partnership surrenders its authority to transact business in this state;
- (d) That the limited partnership revokes the authority of its registered agent in this state to accept service of process and consents that service of process in any action, suit or proceeding based upon any cause of action arising in this state during the time the limited partnership was registered in this state may thereafter be made on such limited partnership by service thereon in the manner provided in section 53-252, Idaho Code;
- (e) A post-office address to which a copy of any process against the limited partnership may be served on it pursuant to the provisions of sections 53-252, Idaho Code.

The application for withdrawal shall be made on forms prescribed and furnished by the secretary of state and shall be executed by the limited partnership by a general partner, and verified by him.

53-256. TRANSACTION OF BUSINESS WITHOUT REGISTRATION -- FOREIGN LIMITED PARTNERSHIP. (a) A foreign limited partnership transacting business in this state may not maintain any action, suit, or proceeding in any court of this state until it has registered in this state.

(b) The failure of a foreign limited partnership to register in this state does not impair the validity of any contract or act of the foreign limited partnership or prevent the foreign limited partnership from defending any action, suit, or proceeding in any court of this state.

(c) A limited partner of a foreign limited partnership is not liable as a general partner of the foreign limited partnership solely by reason of having transacted business in this state without registration.

53-257. ACTION BY ATTORNEY GENERAL. The attorney general may bring an action to restrain a foreign limited partnership from transacting business in this state in violation of sections 53-248 through 53-256, Idaho Code.

53-258. RIGHT OF ACTION. A limited partner may bring an action in the right of a limited partnership to recover a judgement in its favor if general partners with authority to do so have refused to bring the action or if an effort to cause those general partners to bring the action is not likely to succeed.

53-259. PROPER PLAINTIFF. In a derivative action, the plaintiff must be a partner at the time of bringing the action and (1) at the time of the transaction of which he complains or (2) his status as a partner had devolved upon him by operation of law or pursuant to the terms of the partnership agreement from a person who was a partner at the time of the transaction.

53-260. PLEADING. In a derivative action, the complaint shall set forth with particularity the effort of the plaintiff to secure initiation of the action by a general partner or the reasons for not making the effort.

53-261. EXPENSES. If a derivative action is successful, in whole or in part, or if anything is received by the plaintiff as a result of a judgement, compromise or settlement of an action or claim, the court may award the plaintiff reasonable expenses, including reasonable attorney's fees, and shall direct him to remit to the limited partnership the remainder of those proceeds received by him.

53-262. FILING FEES. The secretary of state shall charge and collect for:

- (a) Filing a certificate of limited partnership, sixty dollars (\$60.00);
- (b) Filing a certificate of amendment, twenty dollars (\$20.00);
- (c) Filing a certificate of cancellation, twenty dollars (\$20.00);
- (d) Filing a judicial decree of amendment or cancellation, twenty dollars (\$20.00).

(e) Filing an application for registration as a foreign limited partnership, sixty dollars (\$60.00);

(f) Filing a certificate of change or correction of an application for registration of a foreign limited partnership, twenty dollars (\$20.00);

(g) Filing a statement of change of registered agent of a foreign limited partnership or its address, ten dollars (\$10.00);

(h) Filing an application for withdrawal of a foreign limited partnership from the state, ten dollars (\$10.00);

(i) Filing an application for a name reservation, or transfer thereof, ten dollars (\$10.00);

(j) Filing any other statement, ten dollars (\$10.00);

(k) Filing any document relating to a limited partnership, when the filing party requires the evidence thereof to be returned within eight (8) working hours, a surcharge of ten dollars (\$10.00).

53-263. CONSTRUCTION AND APPLICATION. This chapter shall be so applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this chapter among states enacting it.

53-264. SHORT TITLE. This chapter may be cited as the "Idaho Limited Partnership Act".

53-265. SEVERABILITY. If any provisions of this chapter or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of the chapter which can be given effect without the invalid provisions or application, and to this end the provisions of this chapter are severable.

53-266. RULES FOR CASES NOT PROVIDED FOR IN THIS CHAPTER. In any case not provided for in this chapter the provisions of the uniform partnership law govern.

53-267. TRANSITION. (a) Each limited partnership which was in existence on January 1, 1982, shall within two (2) years thereafter file in the office of the secretary of state a copy of its certificate of limited partnership with all amendments, certified by the recorder of the county in which the original is filed, or alternatively, it shall file a restated certificate of limited partnership incorporating all amendments which have been made to the certificate, executed in the same manner as provided for an original certificate of limited partnership in section 53-211, Idaho Code. If the limited partnership elects to file a restated certificate, it shall include therein a statement identifying the county in which the original certificate of limited partnership was filed and stating the date of the original filing.

(b) Each limited partnership which has not refiled pursuant to subsection (a) by January 1, 1984, may not maintain any action,



suit, or proceeding in any court of this state until it does refile. The failure to refile shall not impair the validity of any contract or act of the limited partnership nor prevent the limited partnership from defending any action, suit, or proceeding in any court in this state. A limited partner is not liable as a general partner solely by reason of the failure of the limited partnership to refile.

(c) Each foreign limited partnership which has filed a certified copy of its certificate of limited partnership in any county of this state prior to January 1, 1982, shall within two (2) years thereafter file in the office of the secretary of state a copy of its certificate of limited partnership and all amendments thereto, certified by the official with which the original filed in the state in which the limited partnership is organized. The certificate shall be accompanied by a statement setting forth the name of the county in this state in which the foreign limited partnership first filed a certified copy of its certificate of limited partnership and the date of such filing, which statement shall be executed and verified by a general partner. Failure to refile as provided herein shall result in the loss of the foreign limited partnership's right to conduct business in this state.

(d) The secretary of state shall charge and collect for refilings pursuant to subsections (a) and (c) of this section, twenty dollars (\$20.00).

# TELEPHONE CONVERSATION RECORD



JACOBS ENGINEERING GROUP INC.

DISTRIBUTION

FROM

Stefan von Bethlow

OF

JEG

TO

ID Secy of State's Office

OF

PHONE

(208) 3342300

DATE

6/8/89

PROJECT NUMBER

411

PROJECT

05841100 Silver Box/Butte

re: registration of Universal-Royal Apex Ltd

(1) ID Limited Partnership filed on 1/27/83

(2) Currently registered

(3) Justin Rice and Royal Apex Corporation  
General Partners.

I requested copy of Certificate of limited  
Partnership any amendments to certificate  
Annual reports not mandatory in Idaho.

Address:

Secy of State's Office

State House, Room 203

Boise, ID 83720

## PHONE CONVERSATION RECORD

Conversation with:

Name DE Secy of State Corporations Div.Date 6/6/89Time 2:45 MDT AM/PM

Company \_\_\_\_\_

Address Dover, DE☒ Originator Placed Call☐ Originator Received CallPhone (302) 736 3073W.O. NO. 411Subject Successorship for BAP after 6/22/87 Merger

Notes: DE computer indicates that after BAP [MT]  
merged into Illinois Leasing, Inc. (doi 12/16/86)  
survivor Illinois & named name to  
Butte, Anaconda and Pacific Railroad Company.  
DE corporation in good standing. Unable  
to determine current relationship with  
ARCO.

Registered Agent:

The Prentice-Hall Corporation System Inc.  
229 South State St.  
Dover, DE 19901

DE Corporate ID #:  
2111278

☒ File \_\_\_\_\_☐ Tickle File \_\_\_\_\_☐ Follow-Up By: \_\_\_\_\_☐ Copy/Route To: \_\_\_\_\_

Follow-Up-Action: research BAP II  
and possible current status  
and subsidiary relationship  
with ARCO

Originator's Initials 82



IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

In re

CHICAGO, MILWAUKEE, ST. PAUL  
AND PACIFIC RAILROAD COMPANY,

Debtor.

)  
)  
) Bankruptcy No. 77-B-8999  
) Chapter VIII  
)

NOTICE OF HEARING ON APPOINTMENT OF TRUSTEE  
AND NOTICE OF PROOF OF CLAIM PROCEDURE  
AND OF AUTOMATIC STAY

To creditors, stockholders and other parties of interest:

A petition having been filed on December 19, 1977, by Chicago, Milwaukee, St. Paul and Pacific Railroad Company, the above-named debtor, of 516 West Jackson Boulevard, Chicago, Illinois 60606, seeking relief under Chapter VIII of the Bankruptcy Act notice is hereby given, that:

1. A hearing on the appointment of a trustee shall be held in Court Room No. 2103, United States Court House, 219 South Dearborn Street, Chicago, Illinois 60604, on January 18, 1978, at 9:30 o'clock a.m.

2. On or before January 11, 1978, suggestions of persons qualified to serve as trustee may be submitted to the court at the address appearing in paragraph 1.

3. The last date for filing an answer to the petition by any creditor, indenture trustee, or stockholder is the day prior to the date of the hearing set in paragraph 1. If a timely

answer is filed, the court will consider such answer at the hearing on appointment of a trustee.

4. The trustee will file a list of creditors and stockholders pursuant to Chapter VIII Rule 8-106 of the Rules of Bankruptcy Procedure. In order to vote on a plan or share in any distribution, a creditor who is not listed, and a creditor whose claim is listed as disputed, contingent, or unliquidated as to amount, must file a proof of claim on or before a date which will be fixed and of which you will be notified by mail if your address is known. A creditor who desires to assert a claim different in amount or character from his claim as listed, must file a proof of claim within the time to be fixed by the court. Holders of record of stock, bonds, debentures, notes, and other securities will be entitled to vote on a plan and share in the distribution under a plan based on their ownership of the securities at the times fixed under Rules 8-306 and 8-405. Holders of non-registered securities (securities for which no formal transfer records are maintained by or for the debtor) will be entitled to share in distribution under a plan if the filed list includes the outstanding indebtedness of the entire securities issue. The filing of a proof of claim covering the entire indebtedness by a trustee under a trust indenture will also establish the right of a holder of a security under the indenture to share in distribution under a plan. However, since the filed list or the proof of claim of a trustee under a trust indenture may not indicate who owns nonregistered securities, it may be impossible to provide voting materials to nonregistered

security holders. If you are the holder of a nonregistered security and you desire to vote on a plan, you must file a timely proof of claim.

You are further notified that:

The hearing on appointment of a trustee may be continued or adjourned from time to time by order made in open court, without further notice to creditors, indenture trustees, and stockholders.

The filing of the petition by the above-named debtor operates as a stay of the commencement or continuation of any action against the debtor, of any setoff by a creditor, of the enforcement of any judgment against the debtor, of any act or the commencement or continuation of any court proceeding to enforce any lien on the property of the debtor, and of any court proceeding commenced for the purpose of rehabilitation of the debtor or the liquidation of its estate as provided by Rule 8-501.

BY ORDER OF THE UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF ILLINOIS.

THOMAS R. MCMILLEN  
\_\_\_\_\_  
District Judge

A TRUE COPY-ATTEST  
H. STUART CUNNINGHAM, CLERK

By

  
DEPUTY CLERK

U. S. DISTRICT COURT, NORTHERN  
DISTRICT OF ILLINOIS

DATE: 12-20-77



(1/85e)

## UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION

Case Number	77 B 8999	Date	July 12, 1985
Name of Assigned Judge	THOMAS R. McMILLEN	Sitting Judge if Other Than Assigned Judge	
Case Title	In Re: Chicago, Milwaukee, St. Paul & Pacific RR Co.		

**MOTION:** (In the following box (a) indicate the party filing the motion, e.g., plaintiff, defendant, 3d-party plaintiff, and (b) state briefly the nature of the motion being presented.)


**DOCKET ENTRY:** (The balance of this form is reserved for notations by court staff.)

(1) <input type="checkbox"/>	Judgment is entered as follows:	(2) <input checked="" type="checkbox"/>	[Other docket entry:]	
<i>Order 832</i>				
(3) <input type="checkbox"/>	Filed motion of [use listing in "MOTION" box above].			
(4) <input type="checkbox"/>	Brief in support of motion due _____.			
(5) <input type="checkbox"/>	Answer brief to motion due _____. Reply to answer brief due _____.			
(6) <input type="checkbox"/>	<input type="checkbox"/> Hearing on _____ set for _____ at _____ <input type="checkbox"/> Ruling			
(7) <input type="checkbox"/>	Status hearing <input type="checkbox"/> held <input type="checkbox"/> continued to <input type="checkbox"/> set for <input type="checkbox"/> re-set for _____ at _____.			
(8) <input type="checkbox"/>	Pretrial conference <input type="checkbox"/> held <input type="checkbox"/> continued to <input type="checkbox"/> set for <input type="checkbox"/> re-set for _____ at _____.			
(9) <input type="checkbox"/>	Trial <input type="checkbox"/> set for <input type="checkbox"/> re-set for _____ at _____.			
(10) <input type="checkbox"/>	<input type="checkbox"/> Trial <input type="checkbox"/> Hearing held and continued to _____ at _____.			
(11) <input type="checkbox"/>	This case is dismissed <input type="checkbox"/> without <input type="checkbox"/> with prejudice and without costs <input type="checkbox"/> by agreement <input type="checkbox"/> pursuant to <input type="checkbox"/> FRCP 4(j) (failure to serve) <input type="checkbox"/> General Rule 21 (want of prosecution) <input type="checkbox"/> FRCP 41(a)(1) <input type="checkbox"/> FRCP 41(a)(2)			
(12) <input checked="" type="checkbox"/>	DRAFT. [For further detail see order <input checked="" type="checkbox"/> on the reverse of <input checked="" type="checkbox"/> attached to the original minute order form.]			
<input type="checkbox"/>	No notices required.	<i>W/draft</i> <b>JUL 19 1985</b> <b>JUL 22 1985</b> <b>JUL 19 1985</b> <i>mk</i>	number of notices	Document # <div style="border: 1px solid black; height: 40px; width: 100%;"></div>
<input type="checkbox"/>	Notices mailed by judge's staff.		date typed envelopes	
<input checked="" type="checkbox"/>	Notified counsel by telephone.		date docketed	
<input type="checkbox"/>	Docketing to mail notices.		date mld. notices	
<input type="checkbox"/>	Mail CIV-31 form.	mailing dpty. initials		
<i>fm</i> courtroom deputy's initials		Date/time received in central Clerk's Office		

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

IN THE MATTER OF:	)	In Proceedings for the
	)	Reorganization of a
CHICAGO, MILWAUKEE, ST. PAUL	)	Railroad
and PACIFIC RAILROAD COMPANY,	)	
	)	No. 77 B 8999
Debtor.	)	Thomas R. McMillen

**DOCKETED**

JUL 19 1985

ORDER NO. 832

Upon consideration of the Trustee's 1985 Plan of Reorganization (the "Plan"), due notice having been given to creditors, stockholders and other parties in interest in accordance with this Court's Order No. 811, the Court, acting as Court of Reorganization for the Debtor pursuant to Section 77 of the Bankruptcy Act of 1898, as amended ("Section 77"), finds and concludes as follows:

1. The Chicago, Milwaukee, St. Paul and Pacific Railroad Company, the Debtor in this proceeding, a Wisconsin corporation, filed on December 19, 1977 its petition to this Court to effect a plan of reorganization under Section 77. A copy of that petition was filed at the same time with the Interstate Commerce Commission (the "Commission"). This Court has jurisdiction over the proceedings pursuant to Section 77.

2. The Court approved the petition as properly filed on December 20, 1977. Stanley E.G. Hillman was appointed trustee of the property of the Debtor on the February 13, 1978. Mr. Hillman was succeeded as Trustee by Richard B. Ogilvie on August 20, 1979. Mr. Hillman from the date of his appointment until August 20, 1979, and Mr. Ogilvie from that date until the present time, have continued in the possession and control of the property and assets of the Debtor and their operation.

3. On March 31, 1983, the Trustee filed with the Court an Amended Plan of Reorganization for the Debtor, which was referred to the Commission by order of this Court. After due notice and hearings, the Commission, in orders served September 26, 1984, and January 11, 1985, approved a modified version of the Trustee's plan.

4. On February 19, 1985, this Court, in Order No. 809, approved the sale of the Debtor's operating rail assets to the Soo Line Railroad Company and its affiliate The Milwaukee Road Inc., formerly SLRCO, Inc. (collectively "Soo") pursuant to the terms of an Asset Purchase Agreement ("APA") between the Trustee and Soo.

5. On April 10, 1985 the Commission, upon petition of the Trustee, issued a decision in which it ruled that

further modifications to the Trustee's Amended Plan need not be considered by the Commission.

6. On May 1, 1985, the Trustee filed with this Court his 1985 Plan of Reorganization for the Debtor (the "Plan"). The Plan recognized the sale of the operating assets to Soo but otherwise incorporated the essential provisions of the plan approved by the Commission. After due notice to creditors, stockholders and other parties in interest was given in accordance with Order No. 811, this Court held hearings, received evidence, and heard the arguments of counsel wishing to be heard on June 24, 25 and 27, 1985 for the purpose of considering approval and confirmation of the Plan.

7. Objections to the Plan and supporting briefs were filed by various parties in interest, including the Debtor and CMC; Soo; The United States of America; Chicago, Milwaukee, St. Paul and Pacific Bond and Debenture Holders Protective Committee ("Committee"); The First National Bank of Chicago (the "Indenture Trustee"); Stickney Corporation ("Stickney"); Pullman Leasing Company, GATX Corporation, Fruit Growers Express and Union Tank Car Company ("Trade Creditors"); Railroads as Creditors ("Interline Railroads"); Chessie System Railroad Co. ("Chessie"); Grand Trunk Western Railroad Co. ("GTW"); Harris Bank ("Harris") jointly with Continental Bank ("Continental"); Messrs. Spencer, Todhunter and Stevens ("Spencer"); Elroy G. Schoeneck; Railway Labor



Executives' Association ("RLEA"); Organization of Minority Vendors, Inc. ("OMVI"); Seaboard System Railroad, Inc. ("Seaboard"); Iowa Interstate Railroad, Inc. ("Iowa Interstate"); certain Counties of the State of Iowa ("Iowa Counties"); J. Howard Brosius; John M. Medvetz; William E. Bromsen, as Trustee for certain preferred stockholders; and Blake H. Schubert, as attorney for unidentified preferred stockholders. Oral objections were propounded at the hearings by the Escanaba and Lake Superior Railroad ("E&LS").

8. At the hearings, the following objections were withdrawn:

- (a) the objection of the Debtor and CMC to the provisions in Sections 6.1 of the Plan concerning the procedure for rejection of executory contracts; and
- (b) the objection of the Committee which had sought provision in the Plan for lost, stolen or misplaced certificates.

Seaboard withdrew its objections with respect to the provisions in the Plan concerning discharge of claims assumed by Soo and concerning bar dates and notice, while reserving its right to object to the proposed modifications to those provisions that were to be filed with the Court by the Trustee, the Debtor, CMC and Soo.

9. On June 27, 1985 the Trustee, the Debtor, CMC, and certain creditors filed proposed modifications to Sections 5.3 and 5.4 of the Plan, concerning the rates and the method of calculation of interest on Class A and Class C claims. On July 1, 1985 the Trustee, Soo, the Debtor and CMC filed proposed modifications to Sections 5.8, 10.2, 11.1 and 11.2 of the Plan, concerning discharge of claims, bar dates and notice. Due notice was given of these modifications and the time for filing of objections.

10. The Court has considered the certified record of proceedings before the Commission, the Commission's decisions of September 26, 1984, January 11, 1985 and April 10, 1985, the Plan, the objections to the Plan and proposed modifications filed with the Court and propounded orally at the hearing, the briefs filed by various parties, the evidence adduced at the hearings, and the arguments of counsel wishing to be heard.

11. With respect to the Committee's request for discovery with respect to the value of the Debtor's assets, the Court finds:

- a. The Committee is not entitled to further discovery pursuant to Bankruptcy Rule 8-705. Rule 8-705 does not apply to proceedings relating to approval or confirmation of a Section 77 plan of reorganization. Such proceedings are governed by Bankruptcy Rule 8-304;
- b. Section 77 and Bankruptcy Rule 8-304 do not contemplate de novo hearings before this Court with respect to valuation issues considered or which could have been considered

by the Commission, and accordingly there is no justification for allowing further discovery with respect to valuation issues, which could have been raised before the Commission. Ecker v. Western Pacific Railroad Corp., 318 U.S. 448, 473 (1943);

- c. Sufficient information with respect to value has been made available to the Committee in the certified record of the proceedings before the Commission, in publicly filed documents, and in interrogatory answers filed by the Trustee. The Court accordingly finds, in the exercise of its discretion to control discovery, that there is no justification for further discovery with respect to the issues raised by the Committee and that the record before this Court with respect to matters as to which discovery is sought is sufficient; and
- d. The Court does not see the relevancy or benefit to be gained by the Committee by granting further discovery. The request for discovery and for a continuance of the approval and confirmation hearing is therefore denied.

#### Bar Dates and Discharge of Claims

12. With respect to the objection of the United States of America seeking provision in the Plan for claims arising out of the government debt assumed by Soo under the APA, the Court rules that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to the government debt assumed by Soo, and that the claims of the United States under that government debt accordingly are not entitled to treatment in the Plan.

13. With respect to the objection of RLEA seeking provision in the Plan for employees' claims under the Wage Deferral Agreement approved in this Court's Order No. 551, the Court finds that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to those claims, which accordingly are not entitled to provision in the Plan.

14. With respect to the oral objection of E&LS seeking treatment under the Plan for claims arising out of trackage rights agreements assigned to Soo under the APA, the Court finds that Order No. 809 relieved the Trustee from all ~~obligations and~~ liability arising out of trackage rights agreements assumed by Soo, ~~and that any claims of E&LS arising out of those obligations are not entitled to treatment under the Plan.~~ *There* *There*

15. With respect to OMVI's request for clarification of the treatment of claims asserted by OMVI in an action now pending in the United States District Court for the Northern District of Illinois, Eastern Division, the Court finds that the Trustee's obligations with respect to those claims were assumed by Soo and that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to those claims, which accordingly are not entitled to treatment under the Plan.

16. With respect to the Iowa Counties' objection concerning the treatment of real property tax installments due after February 19, 1985, the Court finds that Order



No. 809 relieved the Trustee from all obligations and liabilities with respect to those taxes to the extent they relate to real property transferred to Soo, and that accordingly those claims are not entitled to treatment under the Plan. With respect to the Iowa Counties' other objections relating to treatment of claims for taxes and special assessments, the Court finds that the Plan adequately provides for those claims, to the extent they have not been assumed by Soo.

17. With respect to Iowa Interstate's objections concerning bar dates for claims against the Trustee in his individual capacity the Court finds that the Plan provides fair and adequate opportunity for Iowa Interstate to assert any claims it may have against the Trustee individually.

18. With respect to Seaboard's objection to the provisions for the discharge of the Trustee upon consummation, the Court finds that this objection is premature and should be denied without prejudice to Seaboard's right to object to discharge at the time discharge is considered by the Court.

19. The proposed modifications filed on July 1, 1985 by the Trustee, Soo, the Debtor and CMC proposed that Section 5.8, the last sentence of Section 10.2 and Section 11.1 and 11.2 of the Plan be modified as follows:

#### 5.8 Termination of Right to Receive Payment Under the Plan

The rights of all security holders, creditors and claimants to receive payment under this Plan will terminate five years after the Consummation Date or, as to Claims asserted as of the Consummation Date but not finally settled or adjudicated until after the fourth anniversary of the Consummation Date, one year after the date of final settlement or adjudication. The holders of Allowable Claims who do not deliver certificates, properly endorsed with signature guaranteed, for cancellation with respect to Class B Claims or appropriate forms of release and satisfaction required by the Trustee with respect to all other Claims within the time specified in this Section 5.8 will not be entitled to participation under the Plan.

\* \* \*

#### 10.2. Bar Date for Claims Against Trustee

. . . . Notice of the bar dates established in this Section 10.2 shall be published in The Wall Street Journal (national edition) not later than ten days after the Confirmation Date and not later than ten days prior to the Consummation Date, respectively.

\* \* \*

#### XI. Bar of Claims Against Trustee as Trustee, the Debtor or the Estate

##### 11.1 Bar Dates

In accordance with Orders 201 and 265, certain Pre-Petition Claims which were not filed with the Trustee on or before January 9, 1980 are barred and are not subject to treatment under this Plan. Pre-Petition and Post-Petition Claims against the Trustee in his capacity as Trustee, the Debtor or the Estate which have been filed in a form not satisfactory to the Trustee, or which have not been previously filed and are not barred by Orders 201 or 265, must be filed with the Court and served upon the Trustee not later than 60 days after the Confirmation Date or be forever barred. Any such Claim arising after the Confirmation Date but prior to the Consummation Date must be filed with the Court and served

upon the Reorganized Company not later than 30 days after the Consummation Date or be forever barred. Not later than ten days after the Confirmation Date the Trustee shall give notice of the first bar date provided in this Section 11.1 by mail to all claimants whose filings are not satisfactory to the Trustee, and to all persons or entities who the Trustee reasonably believes have a Claim against the Trustee in his capacity as Trustee, the Debtor or the Estate which has not previously been filed and is not barred by Orders 201 and 265. On or before the Consummation Date the Trustee shall give notice of the second bar date established in this Section 11.1 by mail to all persons or entities who the Trustee reasonably believes have a Claim against the Trustee in his capacity as Trustee, the Debtor or the Estate which has not previously been filed and is not barred by Orders 201 and 265 or by the first bar date established in this Section 11.1. Notice of the bar dates established in this Section 11.1 shall be published in The Wall Street Journal (national edition) not later than ten days after the Confirmation Date and not later than ten days prior to the Consummation Date, respectively.

#### 11.2 Scope of Bar

The bar dates provided in Section 11.1 apply to all Claims, including Claims for contribution or indemnity existing as of the Confirmation Date and the Consummation Date, respectively. The bar dates provided in Section 11.1, however, do not apply to claims for contribution or indemnity based on facts that are unknown, undisclosed and unasserted as of the Confirmation Date or the Consummation Date, respectively. Claims arising prior to the Consummation Date based on personal injury or death to any person who was a minor at the time of occurrence, as determined under the laws of the State of which he or she was then a resident, may not be asserted against the Reorganized Company unless timely filed by a person having the responsibility over the legal affairs or guardianship of that person. Claims which were the subject of lawsuits filed prior to the Consummation Date but which are not pending on the Consummation Date may not be reasserted subsequent to the Consummation Date, even if dismissal of the lawsuit was without prejudice and the time permitted for refileing has not run. The notices given in accordance with Section 11.1 above shall contain the information set forth in this Section 11.2.

The Court finds that these modifications represent a fair and equitable settlement between the Trustee, the Debtor, CMC and Soo, and that the Plan provisions, as modified, afford fair and equitable treatment to claimants and the Debtor's stockholders.

Accordingly, the Plan should be modified as proposed.

20. With respect to the objections of the Committee and the Indenture Trustee concerning the interest payable on the Debentures, the Court finds for the reasons set forth in the Court's Order No. 831 that the second paragraph of Section 5.4 of the Plan should be modified to read as follows:

"Interest with respect to Class B Claims will be paid as follows:

- (a) Interest at the rate of five percent per annum, without compounding, will be paid on the principal amount of the Debentures beginning on January 1, 1976, and continuing every year or portion of a year thereafter until the Distribution Date for Class B Claims, regardless of whether the Debtor had Available Net Income as that term is used in the Indenture;
- (b) Each unpaid annual installment of interest (as set forth in subparagraph (a)) shall itself constitute an Allowable Claim, which shall bear interest at the rates specified in Section 5.4 of the Plan for Class A and C Claims, beginning on the date each installment was due, and continuing every year or portion of a year thereafter until the Distribution Date for Class B Claims; and
- (c) Except as provided in subparagraphs (a) and (b), no other interest shall be paid on the principal of the Debentures or on the unpaid installments of interest."

21. With respect to the suggestion of the Debtor and CMC that the original maturity date of the Debentures be reinstated, the Court finds that under Section 77 this Court has the equitable power, in appropriate circumstances, to cure defaults under long-term debt instruments and to



reinstate the original maturity date, but that under the circumstances of this reorganization, that exercise of this power with respect to the Debtor's Debentures is not appropriate.

22. The proposed modifications filed on July 27, 1985 by the Trustee, the Debtor, CMC and certain <sup>actively participating</sup> creditors proposed that Section 5.3 and the first paragraph of Section 5.4 of the Plan be modified as follows:

#### 5.3 Calculation of Interest

Each allowable Claim will be entitled to interest, calculated as provided in this Section and Section 5.4 below. Interest and related charges will be calculated at the rates provided by the Plan from a date a Claim is liquidated until (1) the Distribution Date, in the case of Claims finally allowed, settled or adjudicated prior to the applicable Distribution Date, or (2) the date of payment, in the case of other Claims. The liquidation date shall be deemed the date upon which the principal amount of the Claim is ascertainable from the Trustee's records. With respect to Claims which were liquidated prior to December 19, 1977, the liquidation date shall be deemed December 19, 1977.

#### 5.4 Interest Rate

Interest with respect to Class A and Class C Claims will be calculated in accordance with Section 5.3 above at the rate of seven and one-half per cent (7-1/2%) per annum, without compounding from the date of liquidation to February 19, 1985. From February 20, 1985 to the Distribution Date (in the case of Claims finally allowed, settled or adjudicated prior to the applicable Distribution Date), or to the date of payment (in the case of other Claims) interest will be calculated at the rate of interest currently being earned on the funds of the estate held in escrow accounts in the name of the Trustee. The current rate of 8.5% shall be applied from February 20 through September 1, 1985. The Trustee, the Debtor or claimants entitled to interest may make application to have this rate altered prospectively for periods beginning after September 1, 1985 in the event the interest then being earned on funds of the estate should warrant a change.

With respect to these proposed modifications, the Court finds that:

- a. The proposed modifications represent a fair and equitable settlement between the Trustee, the Debtor, CMC and most of the creditors filing objections to the rates and manner of calculation of interest provided in the Plan. The proposed modifications are the result of extended negotiations conducted by able and experienced counsel for the Debtor, CMC and the creditors who have been most active in these proceedings. In re Penn Central Transportation Co., 354 F. Supp. 710, 715 (E.D.Pa. 1972);
- b. It is in the best interests of the Debtor, the Estate, and the creditors to have all these matters immediately and finally resolved. Id.
- c. In light of the claims asserted, the prevailing interest rates, the losses suffered by the Estate during the reorganization, the varying statutory rates that apply in states of residence of claimants, and the decision of the Rock Island reorganization court with respect to interest rates, the rates and method of calculation provided in the proposed modifications are fair and equitable to all creditors in Classes A and C.

Accordingly, the Plan should be modified as proposed.

23. With respect to the claims of the United States and the Iowa Counties for interest and penalties on their claims for taxes at rates higher than the interest rates provided for other claims in Classes A and C, the Court finds that penalties are not properly assessable for delay of tax payments occasioned by the reorganization, In re Penn Central Transp. Co., 458 F. Supp. 1234, 1281 (E.D. Pa. 1978); and that the interest rates provided in Sections 5.3 and 5.4 of the Plan, as modified, are fair and equitable and are applicable to both sets of claims.

24. With respect to the objections of Elroy G. Schoeneck seeking interest on Class A personal injury claims at a rate higher than provided for other unsecured creditors, the Court finds that the priority status of the personal injury claimants does not entitle them to higher rates of interest on their claims, and personal injury claimants should accordingly receive interest at the same rates as other unsecured creditors.

25. With respect to the objections of Iowa Interstate seeking pre-judgment interest the Court finds that claims for pre-judgment interest are appropriately resolved as part of the resolution of disputed claims.

26. With respect to the objections of Harris and Continental seeking interest on advances, the Court finds that Harris, Continental and other indenture trustees and committees may assert their claims for interest on advances as part of the procedure provided in Section 9.1 of the Plan for allowance of claims for fees and expenses under Section 77(e). Accordingly, the last two sentences of Section 5.4 of the Plan should be deleted. This does not constitute a finding that they are entitled to interest. With respect to the oral objection of counsel for Stickney concerning the time for filing applications under Section 9.1 of the Plan, the Court finds that the Plan should be amended to provide that such applications may be filed on or before one week after the Trustee files his modified Plan in accordance with ordering paragraph 4 below.

Other Objections of Creditors

27. With respect to the objections of RLEA, MDOT, Iowa Counties and Iowa Interstate concerning the Plan's treatment of disputed claims, the Court finds that:

- a. Under Section 77 a plan of reorganization is not required to specify the resolution and treatment of each individual claim against the Estate, but to provide due recognition of the rights of each class of creditors; and
- b. The Plan provides fair and adequate means for resolving disputed claims.

28. With respect to the objections of the Committee and Iowa Interstate concerning the adequacy of the Segregated Account to protect claimants whose claims are to be paid by the Reorganized Company, the Court finds that these objections are premature, and accordingly should be denied without prejudice to the rights of these claimants to seek appropriate provision for their asserted claims in the Segregated Account at the time it is established.

29. With respect to the request of the Committee and the Interline Railroads that the Plan be submitted to them for voting, the Court finds that the Plan, as modified in accordance with this Order, will provide for cash payment to all creditors of an amount equal to the full value of their claims, and, in accordance with Section 77(e), need not be submitted for voting to any class of creditors.



30. With respect to the objections of preferred stockholders, the Court finds that the Plan provides for no change in the interests of the preferred stockholders, but continues the rights of those stockholders in full force and effect, and accordingly the Plan provides fair and equitable treatment of their interests.

General Findings

31. The Plan, as modified in accordance with this Order, complies with the requirements of Section 77(b).

32. The Plan, as modified,

- a. is fair and equitable;
- b. affords due recognition to the rights of each class of creditors and stockholders;
- c. does not discriminate unfairly in favor of any class of creditors or stockholders;
- d. conforms to the requirements of the law regarding the participation of the various classes of creditors and stockholders; and
- e. provides for the payment of all costs of administration and all other allowances made, or to be made, by the Court.

33. The approximate amounts to be paid by the Debtor or the Reorganized Company for expenses and fees incident to the reorganization have been fully disclosed to the extent ascertainable, are reasonable, and are within such maximum limits fixed by the Commission. Additional amounts as may be required to be paid out of the Debtor's Estate or by the Reorganized Company for services performed

and expenses and fees incurred incident to the reorganization and the Plan will be subject to the approval of this Court.

34. The Plan, as modified in accordance with this Order, provides for the payment of all claims of the United States for taxes and the United States is not a creditor on any claims for customs duties.

35. The additional findings and conclusions of law, not inconsistent with the provisions of this Order, made pursuant to Rule 52 by the Court orally on June 24, 25 and 27, 1985 are incorporated in this Order by reference and made a part of this Order.

NOW, THEREFORE, IT IS ORDERED, ADJUDGED AND DECREED AS FOLLOWS:

1. The Plan, with the modifications specified in the above findings, and with such other modifications as may be necessary to conform to the above findings, is hereby approved.

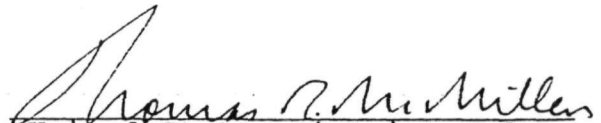
2. The Plan, as so modified, is hereby confirmed.

3. Objections to the Plan and the amendments proposed by the Trustee and other parties are allowed to the extent consistent with the above findings and the modifications specified herein. All other objections to the Plan and the proposed modifications are denied.

4. That the Trustee is directed to file with the Court, on or before July 29, 1985, a modified Plan in conformity with this Order.

5. The Trustee is directed to provide notice by mail of the approval and confirmation of the Plan, as modified, to all parties on the Official Service List, and all creditors and stockholders. The Trustee is further ordered to publish, as soon as possible after filing with this Court a modified Plan, notice of the approval and confirmation once in The Wall Street Journal (national edition). The notices provided by mail and in The Wall Street Journal shall also contain notice of the bar dates for claims provided in the Plan.

ENTER

  
United States District Judge

DATED: JUL 12 1985

FILED

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

JUL - 8 1985

H: STUART CUNNINGHAM, CLERK  
UNITED STATES DISTRICT COURT

IN THE MATTER OF	)	In Proceedings for the
	)	Reorganization of a
CHICAGO, MILWAUKEE, ST. PAUL	)	Railroad
and PACIFIC RAILROAD COMPANY,	)	
	)	No. 77 B 8999
Debtor.	)	Thomas R. McMillen, Judge

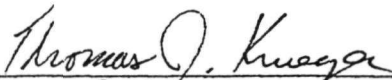
NOTICE OF FILING  
AND NOTICE OF HEARING

DOCKETED  
JUL 12 1985

To: Official Service List and persons who filed objections  
to the 1985 Plan of Reorganization

PLEASE TAKE NOTICE that I have this date filed with the Clerk of the United States District Court for the Northern District of Illinois, Eastern Division, the attached "Trustee's Proposed Order." Pursuant to ruling of the Court, any objections to the form of "Trustee's Proposed Order" shall be heard on the 12th day of July, 1985 at 9:30 a.m. before the Honorable Judge Thomas R. McMillen, Judge of the United States District Court for the Northern District of Illinois, Eastern Division, in the room usually occupied by said Judge as a courtroom in the United States Courthouse, 219 South Dearborn Street, Chicago, Illinois, or, in the absence of said Judge, before any other Judge who may be sitting in said place or stead, at which time and place you may appear if you so desire.

Dated this 8th day of July, 1985.

  
One of the Attorneys for  
Richard B. Ogilvie, Trustee of  
the Property of the Chicago,  
Milwaukee, St. Paul and  
Pacific Railroad Company,  
Debtor

ISHAM, LINCOLN & BEALE  
Three First National Plaza  
Suite 5200  
Chicago, Illinois 60602  
(312) 558-7500



CERTIFICATE OF SERVICE

I hereby certify that I have this 8th day of July, 1985, caused to be served by messenger delivery, Federal Express or deposit in the United States mail, first class postage prepaid, copies of the attached "Trustee's Proposed Order" upon all parties on the Official Service List and all persons who filed objections to the Trustee's 1985 Plan of Reorganization.

Thomas J. Kneger

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

IN THE MATTER OF:	)	In Proceedings for the
	)	Reorganization of a
CHICAGO, MILWAUKEE, ST. PAUL	)	Railroad
and PACIFIC RAILROAD COMPANY,	)	
	)	No. 77 B 8999
Debtor.	)	Thomas R. McMillen, Judge

ORDER NO. \_\_\_\_\_

Upon consideration of the Trustee's 1985 Plan of Reorganization (the "Plan"), due notice having been given to creditors, stockholders and other parties in interest in accordance with this Court's Order No. 811, the Court, acting as Court of Reorganization for the Debtor pursuant to Section 77 of the Bankruptcy Act of 1898, as amended ("Section 77"), finds and concludes as follows:

1. The Chicago, Milwaukee, St. Paul and Pacific Railroad Company, the Debtor in this proceeding, a Wisconsin corporation, filed on December 19, 1977 its petition to this Court to effect a plan of reorganization under Section 77. A copy of that petition was filed at the same time with the Interstate Commerce Commission (the "Commission"). This Court has jurisdiction over the proceedings pursuant to Section 77.

2. The Court approved the petition as properly filed on December 20, 1977. Stanley E.G. Hillman was appointed trustee of the property of the debtor on the February 13, 1978. Mr. Hillman was succeeded as Trustee by Richard B. Ogilvie on August 20, 1979. Mr. Hillman from the date of his appointment until August 20, 1979, and Mr. Ogilvie from that date until the present time, have continued in the possession and control of the property and assets of the Debtor and their operation.

3. On March 31, 1983, the Trustee filed with the Court an Amended Plan of Reorganization for the Debtor, which was referred to the Commission by order of this Court. After due notice and hearings, the Commission, in orders served September 26, 1984, and January 11, 1985, approved a modified version of the Trustee's plan.

4. On February 19, 1985, this Court, in Order No. 809, approved the sale of the operating rail assets to the Soo Line Railroad Company and its affiliate the Milwaukee Road Inc., formerly SLRCO, Inc. (collectively "Soo") pursuant to the terms of an Asset Purchase Agreement ("APA") between the Trustee and Soo.

5. On April 10, 1985 the Commission, upon petition of the Trustee, issued a decision in which it ruled that

further modifications to the Trustee's Amended Plan need not be considered by the Commission.

6. On May 1, 1985, the Trustee filed with this Court his 1985 Plan of Reorganization for the Debtor (the "Plan"). The Plan recognized the sale of the operating assets to Soo but otherwise incorporated the essential provisions of the plan approved by the Commission. After due notice to creditors, stockholders and other parties in interest was given in accordance with Order No. 811, this Court held hearings and received evidence on June 24, 25 and 27, 1985 for the purpose of considering approval and confirmation of the Plan.

7. Objections to the Plan and supporting briefs were filed by various parties in interest, including the Debtor and CMC; Soo; The United States of America; Chicago, Milwaukee, St. Paul and Pacific Bond and Debenture Holders Protective Committee ("Committee"); The First National Bank of Chicago (the "Indenture Trustee"); Stickney Corporation ("Stickney"); Pullman Leasing Company, GATX Corporation, Fruit Growers Express and Union Tank Car Company ("Trade Creditors"); Railroads as Creditors ("Interline Railroads"); Chessie System Railroad Co. ("Chessie"); Grand Trunk Western Railroad Co. ("GTW"); Harris Bank ("Harris") jointly with Continental Bank ("Continental"); Messrs. Spencer, Todhunter and Stevens ("Spencer"); Elroy G. Schoeneck; Railway Labor



Executives' Association ("RLEA"); Organization of Minority Vendors, Inc. ("OMVI"); Seaboard System Railroad, Inc. ("Seaboard"); Iowa Interstate Railroad, Inc. ("Iowa Interstate"); the Counties of the State of Iowa ("Iowa Counties"); J. Howard Brosius; John M. Medvetz; William E. Bromsen, as Trustee for certain preferred stockholders; and Blake H. Schubert, as attorney for unidentified preferred stockholders. Oral objections were propounded at the hearing by the Escanaba and Lake Superior Railroad ("E&LS").

8. At the hearings, the following objections were withdrawn:

- (a) the objection of the Debtor and CMC to the provisions in Sections 6.1 of the Plan concerning the procedure for rejection of executory contracts, and
- (b) the objection of the Committee which had sought provision in the Plan for lost, stolen or misplaced certificates.

Seaboard withdrew its objections with respect to the provisions in the Plan concerning discharge of claims assumed by Soo and concerning bar dates and notice, while reserving its right to object to the proposed modifications to those provisions that were to be filed with the Court by the Trustee, the Debtor, CMC and Soo.

9. On June 27, 1985 the Trustee, the Debtor, CMC, and certain creditors filed proposed modifications to Sections 5.3 and 5.4 of the Plan, concerning the rates and the method of calculation of interest on Class A and Class C claims. On July 1, 1985 the Trustee, Soo, the Debtor and CMC filed proposed modifications to Sections 5.8, 10.2, 11.1 and 11.2 of the Plan, concerning discharge of claims, bar dates and notice. Due notice was given of these modifications and the time for filing of objections.

10. The Court has considered the certified record of proceedings before the Commission, the Commission's decisions of September 26, 1984, January 11, 1985 and April 10, 1985, the Plan, the objections to the Plan filed with the Court and propounded orally at the hearing, the briefs filed by various parties, the evidence adduced at the hearing, and the arguments of counsel wishing to be heard.

11. With respect to the Committee's request for discovery with respect to the value of the Debtor's assets, the Court finds:

- a. The Committee is not entitled to discovery pursuant to Bankruptcy Rule 8-705, because Bankruptcy Rule 8-705 does not apply to proceedings for consideration of approval of a Plan of Reorganization, which are governed by Bankruptcy Rule 8-304;

- b. Section 77 and Bankruptcy Rule 8-304 do not contemplate de novo hearings before this Court with respect to valuation issues considered or which could have been considered by the Commission, and accordingly there is no justification for allowing discovery with respect to valuation issues, which could have been raised before the Commission, Ecker v. Western Pacific Railroad Corp., 318 U.S. 448, 473 (1943);
- c. Sufficient information with respect to value has been made available to the Committee in the certified record of the proceedings before the Commission, in publicly filed documents, and in interrogatory answers filed by the Trustee. The Court accordingly finds, in the exercise of its inherent discretion to control discovery, that there is no justification for further discovery with respect to the issues raised by the Committee and that the record before this Court with respect to matters as to which discovery is sought is sufficient for its required legal rulings; and
- d. The Committee has not demonstrated the relevancy of the information sought to the issues to be decided.

#### Bar Dates and Discharge of Claims

12. With respect to the objection of the United States of America seeking provision in the Plan for claims arising out of the government debt assumed by Soo under the APA, the Court rules that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to the government debt assumed by Soo, and that the claims of the United States under that government debt accordingly are not entitled to treatment in the Plan.

13. With respect to the objection of RLEA seeking provision in the Plan for employees' claims under the Wage Deferral Agreement approved in this Court's Order No. 551, the Court finds that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to those claims, which accordingly are not entitled to provision in the Plan.

14. With respect to the oral objection of E&LS seeking treatment under the Plan for claims arising out of trackage rights agreements assigned to Soo under the APA, the Court finds that Order No. 809 relieved the Trustee from all obligations and liability arising out of trackage rights agreements assumed by Soo, and that any claims of E&LS arising out of those obligations are not entitled to treatment under the Plan.

15. With respect to OMVI's request for clarification of the treatment of claims asserted by OMVI in an action now pending in the United States District Court for the Northern District of Illinois, Eastern Division, the Court finds that the Trustee's obligations with respect to those claims were assumed by Soo and that Order No. 809 relieved the Trustee from all obligations and liabilities with respect to those claims, which accordingly are not entitled to treatment under the Plan.

16. With respect to the Iowa Counties' objection concerning the treatment of real property tax installments due after February 19, 1985, the Court finds that the Order



No. 809 relieved the Trustee from all obligations and liabilities with respect to those taxes to the extent they relate to real property transferred to Soo, and that accordingly those claims are not entitled to treatment under the Plan. With respect to the Iowa Counties' other objections relating to treatment of claims for taxes and special assessments, the Court finds that the Plan adequately provides for those claims, to the extent they have not been assumed by Soo.

17. With respect to Iowa Interstate's objections concerning bar dates for claims against the Trustee in his individual capacity the Court finds that the Plan provides fair and adequate opportunity for Iowa Interstate to assert any claims it may have against the Trustee individually.

18. With respect to Seaboard's objection to the provisions for the discharge of the Trustee upon consummation, the Court finds that this objection is premature and should be denied without prejudice to Seaboard's right to object to discharge at the time discharge is considered by the Court.

19. With respect to the proposed modifications filed on July 1, 1985 to Sections 5.8, 10.2, 11.1 and 11.2 of the Plan, the Court finds that these modifications represent a fair and equitable settlement between the Trustee, the Debtor, CMC and Soo, and that the Plan provisions, as modified, afford fair and equitable treatment to claimants and the Debtor's stockholders.

20. With respect to the objections of the Committee and the Indenture Trustee concerning the interest payable on the Debentures, the Court finds that:

- a. The Debenture Indenture provides for interest on the Debentures at 5% per annum out of available net income as provided in the Indenture.\*/
- b. In light of the existence of contract provisions as to interest on the losses suffered by the Estate during reorganization, the benefits that will inure to the Debenture holders as a result of the payment of the principal of the Debentures substantially in advance of the maturity date provided on the Indenture, there are no equities in the favor of the Debenture holders that would justify payment of interest on their claims at any rate higher than provided in the Indenture.

21. With respect to the suggestion of the Debtor and CMC that the original maturity date of the Debentures be reinstated, the Court finds that under Section 77 this Court has the equitable power, in appropriate circumstances, to cure the faults under long-term debt instruments and to reinstate the original maturity date, but that under the circumstances of this reorganization, that exercise of this power with respect to the Debtor's Debentures is not appropriate.

---

\*/ In accordance with the Plan, subject to modification in accordance with the Court's final ruling on this matter.

22. With respect to the proposed modifications filed on June 27, 1985 to Sections 5.3 and 5.4 of the Plan, the Court finds that:

- a. The proposed modifications represent a fair and equitable settlement between the Trustee, the Debtor, CMC and most of the creditors filing objections to the rates and manner of calculation of interest provided in the Plan, and
- b. In light of the claims asserted, the prevailing interest rates, the losses suffered by the Estate during the reorganization, the varying statutory rates that apply in states of residence of claimants, and the decision of the Rock Island reorganization court with respect to interest rates, the rates and method of calculation provided in the proposed modifications are fair and equitable to all creditors in Classes A and C.

Accordingly, the Plan should be modified as proposed.

23. With respect to the claims of the United States and the Iowa Counties for interest and penalties on their claims for taxes at rates higher than the interest rates provided for other claims in Classes A and C, the Court finds that penalties are not properly assessable for delay of tax payments occasioned by the reorganization, In re Penn Central Transp. Co., 458 F. Supp. 1234, 1281 (E.D. Pa. 1978); and that the interest rates provided in Sections 5.3 and 5.4 of the Plan, as modified, are fair and equitable.

24. With respect to the objections of Elroy T. Schoeneck seeking interest on Class A personal injury claims at a rate higher than provided for other unsecured creditors,

the Court finds that the priority status of the personal injury claimants does not entitle them to higher rates of interest on their claims, and personal injury claimants should accordingly receive interest at the same rates as other unsecured creditors.

25. With respect to the objections of Iowa Interstate seeking pre-judgment interest the Court finds that claims for pre-judgment interest are appropriately resolved as part of the resolution of disputed claims.

26. With respect to the objections of Harris and Continental seeking interest on advances, the Court finds that the proposed modification to Section 5.4 of the Plan does not contain the provisions objected to by Harris and Continental, and that, under the provisions of the Plan, with the modifications ordered herein, Harris and Continental may assert their claims for interest on advances as part of the procedure provided in Section 9.1 of the Plan for allowance of claims for fees and expenses under Section 77(e).

Other Objections of Creditors

26. With respect to the objections of RLEA, MDOT, Iowa Counties and Iowa Interstate concerning the Plan's treatment of disputed claims, the Court finds that:

- a. Under Section 77 a plan of reorganization is not required to specify the resolution and treatment of each individual claim against the Estate, but to provide due recognition of the rights of each class of creditors, and
- b. The Plan provides fair and adequate means for resolving disputed claims.



28. With respect to the objections of the Committee and Iowa Interstate concerning the adequacy of the Segregated Account to protect claimants whose claims are to be paid by the Reorganized Company, the Court finds that these objections are premature, and accordingly should be denied without prejudice to the rights of these claimants to seek appropriate provision for their asserted claims in the Segregated Account at the time it is established.

29. With respect to the request of the Committee and the Interline Railroads that the Plan be submitted to them for voting, the Court finds that the Plan, as modified in accordance with this Order, will provide for cash payment to all creditors of an amount equal to the full value of their claims, and, in accordance with Section 77(e), need not be submitted for voting to any class of creditors.

30. With respect to the objections of preferred stockholders, the Court finds that the Plan provides for no change in the interests of the preferred stockholders, but continues the rights of those stockholders in full force and effect, and accordingly the Plan provides fair and equitable treatment of their interests.

#### General Findings

31. The Plan, as modified in accordance with this Order, complies with the requirements of Section 77(b).

32. The Plan, as modified,
- a. is fair and equitable;
  - b. affords due recognition to the rights of each class of creditors and stockholders;
  - c. does not discriminate unfairly in favor of any class of creditors or stockholders;
  - d. conforms to the requirements of the law regarding the participation of the various classes of creditors and stockholders; and
  - e. provides for the payment of all costs of administration and all other allowances made, or to be made, by the Court.

33. The approximate amounts to be paid by the Debtor or the Reorganized Company for expenses and fees incident to the Reorganization have been fully disclosed to the extent ascertainable at the date of the hearing, are reasonable, and are within such maximum limits fixed by the Commission. Additional amounts as may be required to be paid out of the Debtor's Estate or by the Reorganized Company for services performed and expenses and fees incurred incident to the reorganization and the Plan will be subject to the approval of this Court.

34. The Plan, as modified in accordance with this Order, provides for the payment of all claims of the United States for taxes and the United States is not a creditor on any claims for customs duties.

35. The additional findings and conclusions of law, not inconsistent with the provisions of this Order, made pursuant to Rule 52 by the Court orally on June 24, 25 and 27, 1985 are incorporated in this Order by reference and made a part of this Order.

NOW, THEREFORE, IT IS ORDERED, ADJUDGED AND DECREED AS FOLLOWS:

1. The Plan, with the modifications specified in the above findings, and with such other modifications as may be necessary to conform to the above findings, is hereby approved.

2. The Plan, as so modified, is hereby confirmed.

3. Objections to the Plan and the amendments proposed by the Trustee and other parties are allowed to the extent consistent with the above findings and the modifications specified herein. All other objections to the Plan and the proposed modifications are denied.

4. That the Trustee is directed to file with the Court, on or before July 29, 1985, a modified Plan in conformity with this Order.

5. The Trustee is directed to provide notice by mail of the approval and confirmation of the Plan, as modified, to all parties on the Official Service List, and all creditors and stockholders. The Trustee is further ordered to publish, as soon as possible after filing with

this Court a modified Plan, notice of the approval and confirmation once in The Wall Street Journal (national edition). The notices provided by mail and in The Wall Street Journal shall also contain notice of the bar dates for claims provided in the Plan.

ENTER

---

United States District Judge

DATED: